2005-2006

Budget in Brief

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Québec

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April 21, 2005

Finances
Québec

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ISBN 2-550-44301-2
Legal deposit
Bibliothèque nationale du Québec, 2005
Publication date: April 2005
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Introduction

- The 2005-2006 Budget is one of disciplined, responsible management.
- It has three main objectives:
  - to continue to invest in our main priorities and, above all, in health and education;
  - to foster wealth creation and increase prosperity throughout Québec;
  - to modernize public infrastructures.
- With this budget, the government is on its way to keeping its commitments and putting Québec on the road to development and prosperity to raise Quebecers' standard of living and ensure the sustainability of public services.

Economic highlights

Québec's economy is healthy

— The Québec economic activity grew by 1.9% in 2004, the same rate as in 2003, despite adverse changes in the external sector.

— 60 800 new jobs were created and the unemployment rate fell to 8.5%, the lowest level since 1975.

— 60.3% of the labour force was working, a level never before seen in Québec:

  - Young people have benefited the most. Their current employment rate is higher than that of young Ontarians.

— Bolstered by low interest rates, domestic demand grew by 4.6% last year, a 17-year record. In particular:

  - Consumption rose 3.6% and residential investments, 14.8%. These investments translated into 58 400 housing starts, a 17-year peak;

  - Total private investment by businesses grew 13.7%, accounting for 19% of all private investment in Canada, the best performance in 12 years.

— However, like the rest of Canada, Québec was adversely affected by the stronger Canadian dollar, which has appreciated by over 20% in two years:

  - Households and businesses bought more foreign goods, to the detriment of Québec products.

— Thus, even though exports rose in 2004 for the first time in four years, the external sector's contribution to economic growth remained negative, reducing the growth rate by 2.8 percentage points.

— Québec economic activity should pick up starting in 2005, climbing by 2.4% this year and 2.6% in 2006.

— The external sector will gradually take over from the demand for goods and services which, after remaining robust in 2005, will moderate beginning in 2006. The recovery of the external sector will be spurred, in particular, by a slight dip in the Canadian dollar.

Staying the course of our priorities

Health first

Continue to invest massively while making the system more efficient

— Health spending has risen $2.1 billion in the past two years.

— This investment represents three-quarters of the $2.9-billion increase in program spending during the same period.

— In 2005-2006, the health budget will be $20.9 billion:

  - This means $826 million more than last year to improve direct services to the population;
  - Health spending has increased 5.2% per year since 2003-2004.

— Over the next three years, investments in health facilities will account for close to $2.6 billion for Québec as a whole.

— Moreover, $2.5 billion will be invested in the Centre hospitalier universitaire de Montréal and the McGill University Health Centre alone.

Two new action plans

— Two action plans will soon be announced:

  - the first is aimed at developing priority mental health services;
  - the second is aimed at providing more support for seniors losing their autonomy by providing them with more home care.

Strengthening our social safety net

Free medication for the most disadvantaged seniors

— The medication of persons 65 or older who receive the maximum guaranteed income supplement will be completely free of charge:

  – Previously, they had to pay up to $200 per year;

  – They will no longer have to do so as of July 2005.

Reform of support measures for natural caregivers and persons with disabilities

— Over 80 000 natural caregivers and people with a physical or mental impairment will receive additional assistance of $43 million.

— The tax assistance provided to these individuals will increase nearly 50%, from $85 million to $128 million.

INCREASE IN SUPPORT PROVIDED TO PERSONS WITH DISABILITIES AND NATURAL CAREGIVERS – FULL YEAR

	Number of recipients	Gain in millions of dollars
Persons with a severe and prolonged mental or physical impairment	15 000	7
Natural caregivers of minor children	16 000	8
Natural caregivers of adults	50 000	28
TOTAL	**81 000**	**43**

— A tax credit for natural caregivers will be introduced:

  – Under this credit, a low-income couple that cares for an adult child with a disability will be able to count on additional support of $1 000 a year.

— Furthermore, parents of minor handicapped children will receive up to $450 more per year, thanks to the increase in the supplement for handicapped children.

— Finally, eligibility for the tax credit respecting a severe and prolonged mental or physical impairment will be broadened, entitling some 15 000 more people to claim it:

  - This credit will be increased and indexed.

— An additional $2 million will be granted to increase the number of places in adapted work centres.

Investments in education to prepare for the future

Substantial investments

— The other main priority of the government is education:

  - Education accounts for one-quarter of our program spending, that is, $12.2 billion;
  - An additional $321 million will be invested in education this year;
  - Over $1 billion has been invested in academic achievement since the government took office.

— These additional funds will go toward the following initiatives to enhance our children's success:

  - the budget of the homework assistance program is doubled;
  - improved intervention targeting 100 000 students from underprivileged communities will be possible;
  - extra-curricular physical activities and sports are increased;
  - the three-year plan to encourage reading in school will be implemented;
  - as of September 2006, English Second Language will be taught beginning in grade one;
  - $380 million more since 2002-2003 has been allocated to universities, primarily to accept more students.

Promoting arts and culture

Objective: increase private investment

Concrete measures

- Placements Culture is created:
  - It will support the development of arts and culture thanks to contributions from the private sector;
  - The government will inject $5 million.
- Corporate museum memberships will be fully tax-deductible.
- An additional $5 million will be allocated to fund some of our museums.
- The capital cost allowance rate for businesses that acquire works by our artists will be raised from 20% to 33 1/3%.

Families: always at the heart of government action

Implementation of the Québec parental insurance plan

- As of January 1, 2006, a parental leave plan will be implemented.
- This plan will actually be administered as an insurance plan:
  - It will be financed through a separate fund administered by the Conseil de gestion de l'assurance parentale.

Continuing to ease the tax burden of individuals

— The government pledged to reduce the income tax of Quebecers.

— Last year's budget focused on families. $1 billion was returned to taxpayers.

Personal income tax reduction of $372 million

— With the 2005-2006 Budget, the government is announcing an income tax reduction of $372 million over a full year.

— The tax reduction announced in the 2005-2006 Budget is provided through:

- a new $500 tax deduction for workers;
- an increase in the tax assistance for persons with a severe and prolonged mental or physical impairment;
- improvement of the tax assistance for caregivers;
- higher ceilings on contributions to registered retirement savings plans (RRSP) and registered pension plans (RPP);
- an increase in the refundable tax credit for medical expenses.

New $500 deduction for workers

- This year, priority is given to women and men who work:
  - A new $500 deduction will take effect as of January 1, 2006 for everyone who has a job.
- This deduction will benefit 3.1 million employees and 162 000 self-employed workers.
- This tax reduction represents $300 million annually.
- Moreover, the indexation of personal income tax will give taxpayers an additional $250 million in 2005-2006.
- The caps on RRSP contributions will be increased by $1 000 until 2010, and an equivalent measure will be introduced for registered pension plans:
  - When fully implemented, this will mean an additional $27 million in tax relief.

Tax cuts for the middle class

— The tax reduction announced in this budget will benefit, in particular, middle-class taxpayers. For example, 45% of this tax relief will go to workers with incomes of between $25 000 and $50 000 dollars.

— This reduction in taxes is in addition to the gains provided through the 2004-2005 Budget.

— In the 2004-2005 Budget Speech, the government announced it was putting $1 billion back into taxpayers' pockets by introducing, in 2005, the Child Assistance measure, the Work Premium and a single tax system.

— The tax reduction announced in this budget will bring the combined gains for taxpayers to $1.4 billion in 2006.

TAXPAYER GAIN BY INCOME BRACKET – 2006
(millions of dollars)

Taxpayer income	2004-2005 Budget	2005-2006 Budget	Total
$15 000 or less	369	15	384
$15 000 to $25 000	255	62	317
$25 000 to $50 000	260	166	426
$50 000 to $75 000	90	81	171
$75 000 to $100 000	23	27	50
Over $100 000	12	21	33
TOTAL	**1 009**	**372**	**1 381**

2004-2005 BUDGET - RECALL

(millions of dollars)

	Impact on financial framework	
	2005-2006	2006-2007
Gain of $1 billion for taxpayers		
Child Assistance[1]	- 975	- 547
Work Premium	- 115	- 243
Single personal income tax system	- 40	- 219
Total	**- 1 130**	**- 1 009**
RECALL – INDEXATION OF THE TAX SYSTEM		
2005	- 180	- 180
2006	- 70	- 315
Total	**- 250**	**- 495**

1 In 2005-2006, the gain from the Child Assistance measure is in addition to the tax credits claimed by families in spring 2005 in respect of 2004.

2005-2006 BUDGET
PERSONAL INCOME TAX REDUCTION

(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2005-2006	2006-2007
New $500 deduction for workers	- 300	- 70	- 300
Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment	- 7	- 1	- 7
Improvement of the tax assistance for caregivers			
- Increase in the supplement for handicapped children	- 8	- 2	- 8
- New refundable tax credit for natural caregivers	- 28	-	- 5
Higher ceilings on RRSP and RPP contributions	- 27	- 7	- 15
Increase in the refundable tax credit for medical expenses	- 2	- 1	- 2
TOTAL	**- 372**	**- 81**	**- 337**

Gain for taxpayers

— The cumulative gain from the 2004-2005 and 2005-2006 budgets for a couple with two children and two earned incomes is:

- $4 386 for a total family income of $25 000;
- $850 for a total family income of $50 000;
- $780 for a total family income of $75 000.

GAIN FOR A COUPLE WITH TWO CHILDREN AND TWO EARNED INCOMES
(dollars)

	2004-2005 Budget		2005-2006 Budget	
Earned household income	Child Assistance	Work Premium	Deduction for workers	Increase in disposable income
0	1 810	0	0	1 810
5 000	1 810	350	0	2 160
10 000	1 810	1 600	0	3 410
15 000	1 810	2 816	0	4 626
20 000	1 810	2 316	0	4 126
25 000	2 410	1 816	160	4 386
30 000	1 906	1 316	160	3 382
35 000	1 106	816	160	2 082
40 000	643	316	160	1 119
45 000	720	0	160	880
50 000	670	0	180	850
75 000	580	0	200	780
100 000	0	0	220	220

— Over and above these gains, the indexation of personal income tax will give taxpayers an additional $275 million in 2004-2005 and $250 million in 2005-2006.

Gap between Québec and the Canadian average cut in half

— The fiscal gap between Québec and the Canadian average has been cut in half, dropping from $2.2 billion to $1.2 billion in three years.

— The government pledged to attain the Canadian average by the end of its mandate.

PERSONAL INCOME TAX
TAX BURDEN DIFFERENTIAL BETWEEN QUÉBEC AND THE OTHER PROVINCES DETERMINED BY APPLYING THE OTHER PROVINCES' TAX STRUCTURE TO QUÉBEC
(millions of dollars)

	2003	2005	2006
Differential Québec – other provinces			
Alberta	4 433	4 081	3 756
Ontario	5 627	3 758	3 420
British Columbia	3 538	3 046	3 057
Saskatchewan	2 234	1 799	1 461
New Brunswick	1 526	798	573
Manitoba	937	577	414
Nova Scotia	689	435	86
Prince Edward Island	1 099	390	41
Newfoundland and Labrador	- 677	- 1 316	- 1 663
AVERAGE DIFFERENTIAL	**2 156**	**1 508**	**1 238**

Greater social justice for all

Deployment of the plan to combat poverty

— The government has stood by its objective of greater social justice for all, by introducing the plan to combat poverty:

  - Investments of $2.5 billion over five years were announced last year.

Investment in social housing

— $145 million will be invested for the construction of 2 600 new dwellings under the AccèsLogis program.

— With this additional investment, our government is paving the way for the construction of 18 600 low-rent and affordable housing units, for a total investment of $401 million:

  - This is 5 600 more units than promised.

— An additional $15 million will be granted to renovate existing social housing.

Fostering wealth creation

— To foster wealth creation and increase prosperity in all regions of Québec, the government is introducing four series of initiatives, namely:

  - a major reform of corporate taxation to promote investment;
  - improved assistance for business financing;
  - enhanced support for research and development (R&D), innovation and exports;
  - greater support for regional development.

— Overall, these measures will result in the injection of almost $900 million in the Québec economy over the next three years.

FOSTERING WEALTH CREATION
FINANCIAL IMPACT FOR THE GOVERNMENT
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Reform of corporate taxation to promote investment	- 72	- 159	- 261	- 492
Improved assistance for business financing	- 9	- 30	- 40	- 79
Support for R&D, innovation and exports	- 15	- 31	- 31	- 77
Support for regional development – Coulombe Commission recommendations	- 57	- 79	- 104	- 240
TOTAL	**- 153**	**- 299**	**- 436**	**- 888**

Increasing private investment for greater productivity

Reform of corporate taxation to promote investment

- The government is introducing a major reform of corporate taxation, including, in particular:
  - a reduction of more than 50% in the tax on capital and an increase in the income tax rate applicable to large businesses;
  - a lower income tax rate for SMEs;
  - implementation of a capital tax credit for new investments in fabrication and processing equipment.
- Once its full impact is felt in 2009, this reform will reduce taxes collected from businesses by $305 million:
  - The amount of tax on capital will have fallen by $860 million.

REFORM OF CORPORATE TAXATION TO PROMOTE INVESTMENT
FINANCIAL IMPACT FOR THE GOVERNMENT
(millions of dollars)

	Impact over three years			
	2005-2006	2006-2007	2007-2008	Ultimate impact in 2009-2010
Reduction of more than 50% in the tax on capital	-50	-221	-380	-858
Increase in the tax rate of large businesses	43	174	258	587
Introduction of a capital tax credit of 5% of the value of new investments in fabrication and processing equipment	-55	-74	-96	–
Reduction in the tax rate of SMEs	-7	-30	-32	-34
Subtotal – Reform of corporate taxation	**-69**	**-151**	**-250**	**-305**
Increase in capital cost allowance rates	**-3**	**-8**	**-11**	**-20**
TOTAL	**-72**	**-159**	**-261**	**-325**

Reduction of more than 50% in the tax on capital

- Tax on capital will be reduced by over 50%:
  - As of January 1, 2006, the applicable rate will be gradually reduced from 0.6% to 0.29% in 2009.
- This measure will be largely self-financed by occupying the tax room vacated by the federal government regarding corporate income tax:
  - As of January 1, 2006, the tax rate of large businesses will gradually increase from 8.9% to 11.9% by 2009.
- This measure follows up on the recommendation of the 1996 Commission on Taxation and the Financing of Public Services, chaired by Alban D'Amours, which states :
  - "The government should finance measures to reduce fixed tax expenses as follows: (...) increase tax rates on the active income of businesses (...)."

5% tax on capital credit for new investments in machinery and equipment

- Businesses that make a new investment in the manufacturing sector will be entitled to a tax on capital credit equal to 5% of the value of the investment in machinery and equipment:
  - This measure will take effect as of April 22, 2005.
- This credit will completely eliminate the tax on capital on new investments in fabrication and processing equipment:
  - It will also substantially reduce the tax on capital payable on the business's other assets.

Reduction in the taxation rate of SMEs

- In conjunction with the corporate taxation reform, the taxation rate applicable to the income of SMEs is being reduced:
  - As of January 1, 2006, the taxation rate of SMEs will be permanently reduced to 8.5%.
  - This rate will apply to the first $400 000 of taxable income.

Assistance for business financing

Seeding and startup

— FIER-Régions, a component of the regional economic intervention fund, was introduced for the purpose of carrying out promising projects in the seeding and startup phases of businesses in the regions.

— Additional funding of $78 million will be allocated to FIER-Régions:

  – thereby doubling the government's initial capital outlay.

— Innovatech Régions ressources will be converted into a mixed public-private capital corporation through a partnership with Capital régional et coopératif Desjardins and Desjardins Capital de risque to finance new projects in the regions:

  – an injection of $30 million in new capital.

— The Innovatech Québec et Chaudière-Appalaches and Innovatech du sud du Québec will receive a total of $10 million that will be used as leverage to attract private capital and promote their conversion into mixed public-private corporations.

Growth and expansion of businesses

— From now on, tax-advantaged funds will be able to invest in larger businesses, that is, in businesses with assets of up to $100 million.

— A new plan, known as the SME Growth Stock Plan, will be created:

  – providing a new tax incentive for individuals investing on the public market.

— A new refundable tax credit equal to 25% of salaries will be made available to businesses operating in the information technology sector to support projects that create at least 500 jobs in Québec. Businesses will have to claim this tax credit before January 1 , 2008.

Transferring businesses

- Investissement Québec will add a new component, Relève PME, to its Financement PME program:
  - This component will facilitate the transfer of businesses to a family member, a director or any other entrepreneur interested in acquiring such firms.

Support for R&D, innovation and exports

Supporting R&D

- The refundable R&D tax credit, currently set at 35%, will be increased to 37.5% for SMEs.

Making the shift to product development

- The design tax credit will be extended to all designers in all industrial sectors:
  - This will raise the number of businesses entitled to the tax credit from 300 to 700.

Supporting export businesses and productivity enhancement

- $15 million will be allocated over three years to helping businesses improve their performance and take advantage of business opportunities on foreign markets:
  - Specialized consulting services will be made available to businesses.

$240 million for the development and prosperity of our regions

Support for regional development

- To support efforts to adapt and diversify and act on some of the priority recommendations of the Coulombe Commission's report in the regions, $240 million will be earmarked over three years.

- The federal government will also take part in funding this initiative.

$75 million for forest management

- $75 million will be allocated over three years to improve forest management:
  - creation of the position of chief forester;
  - improvement of the calculation of the allowable cut;
  - development of knowledge and improved forest inventories;
  - support program for forest stakeholders;
  - increased support for aboriginal communities to facilitate access to the resource;
  - development of technologies and new products.

Support for regional communities

- A $30-million assistance fund for single-industry towns will help support communities experiencing economic difficulties.

- In addition, $10 million in support will be allocated over three years to workers in forest-based communities for the training of forestry workers and social economy business projects in forest regions.

Encouraging secondary and tertiary processing in the regions

- The tax credits equal to 30% of salaries for businesses engaged in secondary and tertiary processing in the resource regions will be extended to the end of 2009.

Supporting the agricultural sector

- The budget of the ministère de l'Agriculture, des Pêcheries et de l'Alimentation will be $653 million in 2005-2006:
  - The Financière agricole du Québec has over $305 million at its disposal to fund its income security and development support programs.
- $5 million will be devoted over the next two years to promoting the marketing and distribution of local products and the development of small-scale alcoholic beverage production in Québec.
- A biofood centre will be created in east-end Montréal and include a business incubator aimed at facilitating the implementation of innovative projects in the biofood sector.

Developing the tourism industry

- Additional funding of $5 million is being granted in 2005-2006 to support structuring tourism activities in the regions that are based on special events and the development of regional attractions.

Preserving our natural heritage

- The Société des établissements de plein air du Québec (Sepaq) will invest $22 million over the next two years to consolidate the quality of Québec's national park infrastructures and improve public safety.
- To contribute to the preservation of our natural heritage, a program including a commitment of $9 million over three years will be introduced to preserve and maintain protected areas.

SUPPORT FOR REGIONAL DEVELOPMENT
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Improved forest management	- 25	- 25	- 25	- 75
$30-million assistance fund for single-industry towns	- 10	- 10	- 10	- 30
Support for workers in forest-based communities	- 1	- 2	- 2	- 5
Support for social economy business projects in the regions	- 1	- 2	- 2	- 5
Extension of tax credits for secondary and tertiary processing in the resource regions	- 9	- 28	- 53	- 90
Greenhouse production - use of alternative energy sources	- 3	- 2	–	- 5
Local products	- 2	- 3	- 4	- 9
Investments in nature park infrastructures	–	- 6	- 6	- 12
Tourism in the regions	- 5	–	–	- 5
Development of a network of protected areas	- 1	- 1	- 2	- 4
TOTAL	- 57	- 79	- 104	- 240

400th anniversary of the founding of Québec City

— A one-time budget of $110 million will be allocated for the 400th anniversary of the founding of Québec City, namely, $40 million for the organization of the festivities and $70 million for various infrastructure work, including the revitalization of the banks of the St. Lawrence River.

Record investments in infrastructures

- The government has decided to considerably accelerate the pace of investment in infrastructures.
- In 2004-2005, investments totalled nearly $4.1 billion.
- In 2005-2006, projects totalling $4.9 billion will be carried out both to maintain existing assets and build new infrastructures:
  - These investments will be made in collaboration with the federal government, municipalities and, in certain cases, the private sector.
- The level of investment by the government in three years will have been unparalleled in the history of Québec.

Modern road infrastructures

- Average investments of $1.3 billion a year will be made throughout Québec by 2007-2008 to renovate and develop Québec's road network:
  - That is almost double the annual amount allocated between 1994 and 2002.
- Several projects will be accelerated this year:
  - Highway 185 in the Bas-Saint-Laurent region;
  - Highway 175 between Québec City and the Saguenay;
  - Autoroute 73 and Highway 173 in the Beauce region;
  - Autoroute 55 in the Centre-du-Québec and Estrie regions;
  - Autoroute 25 linking Montréal and Laval;
  - Autoroute 50 in the Outaouais region;
  - Autoroute 35, heading toward the Vermont border;
  - Autoroute 30 in the Montérégie region;
  - Autoroute 20 in the Bas-Saint-Laurent and Gaspésie regions.
- Major investments are also planned to improve public transit infrastructures.

Leading-edge facilities in the health and education sectors

— Close to $2 billion will be invested in health and education facilities in the coming year.

Functional urban and municipal infrastructures

— The Société de financement des infrastructures locales du Québec (SOFIL) was created in the last Budget. It will offer a flexible source of funding to municipalities and their agencies.

— The duties levied on vehicles with large-displacement engines are remitted to SOFIL. This will also be the case for the portion of the federal gas tax transferred to Québec.

— The government intends to increase its contribution to the new corporation:

- infrastructure funding through SOFIL will break down as follows:
  - 25% by the Québec government;
  - 25% by municipalities;
  - 50% by the federal government.
- This will ultimately enable municipalities to invest close to $1 billion in their infrastructures annually.

Assets that must must be kept in good condition

— A new policy on the maintenance of assets will be introduced in the health and education networks.

— The government will invest an additional $1 billion over three years to restore the quality of our public facilities:

- in schools, reception centres and hospitals.

Building on our energy resources

- In the years to come, Hydro-Québec will invest over $3 billion annually in new hydroelectric power station projects.
- Hydro-Québec recently awarded contracts to build a wind farm of more than 1 000 mégawatts requiring an investment of over $1.9 billion:
  - This project will have substantial economic benefits for the Gaspésie and Bas-Saint-Laurent regions.
- Hydro-Québec will thus further diversify its energy supply and develop the abundant clean, renewable energy sources in Québec.
- The Budget is promoting the use of two less-polluting fuel sources:
  - A refundable tax credit will be introduced for the production and marketing of ethanol in Québec.
  - The fuel tax paid on biodiesel purchased by public carriers will be fully refunded.
- The Budget is introducing a program to develop pilot projects aimed at recovering energy and using alternative energy sources in greenhouse production.

Disciplined management to maintain a balanced budget

— Economic growth should rise slightly, to 2.4% in 2005 and 2.6% in 2006.

  – These growth rates do not leave much leeway.

— The fiscal imbalance and our obligations regarding collective agreements and pay equity are exerting pressure on public finances.

A zero deficit in 2005-2006

— Responsible management of government spending will continue in 2005-2006.

— The program spending objective is being raised to 3.6%, in part to take collective agreements and pay equity into account.

— Efforts to modernize government will make it possible to:

  – save money;

  – meet the spending growth target;

  – provide more efficient, better-quality public services to Quebecers.

— Efforts to fight tax evasion will be continued to foster greater tax fairness:

  – The measures already announced last year, in particular those concerning economic and financial crime, will be renewed.

— Thanks to the government's responsible management, a balanced budget will be achieved again in 2005-2006.

2006-2007: maintenance of fiscal discipline

— A balanced budget must also be maintained in the coming years:

  – Achieving this goal also raises major challenges for 2006-2007.

— Program spending growth is expected to be 3.6% in 2006-2007, in part to take collective agreements and pay equity into account.

— A budgetary shortfall of around $800 million will have to be made up.

— No efforts will be spared to make up this shortfall :

  – Balancing the budget is and will remain an inescapable obligation.

— Québec currently has the highest debt load of the Canadian provinces.

— The total government debt now stands at 44% of GDP:

  – Thanks to the maintenance of a balanced budget, this percentage will fall to below 40% by the end of this decade.

Restoring balance and equity within the Canadian federation

— The government must have at its disposal the financial resources needed to assume its responsibilities:

  – The federal government has the necessary manoeuvring room to correct the fiscal imbalance and restore equity within the Canadian federation.

— Last fall, substantial gains were made:

  – The federal government considerably increased its funding for health services.

— There are still major problems, however, regarding equalization and the funding of post-secondary education and other social programs.

— The new federal equalization policy runs counter to the objectives set forth in the Constitution of Canada.

— Québec will continue to play a leadership role in Canada to restore balance and equity within the Canadian federation.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
2005-2006 BUDGET SPEECH
(millions of dollars)

	Financial impact for the government	
	2005-2006	2006-2007
A. REVENUE MEASURES		
1. Personal income tax reduction		
New $500 deduction for workers	-70	-300
Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment	-1	-7
Improvement of the tax assistance for natural caregivers		
– Increase in the supplement for handicapped children	-2	-8
– New refundable tax credit for natural caregivers	—	-5
Higher ceilings on RRSP and RPP contributions	-7	-15
Increase in the refundable tax credit for medical expenses	-1	-2
Subtotal – Personal income tax reduction	**-81**	**-337**

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES 2005-2006 BUDGET SPEECH (CONT.)

(millions of dollars)

	Financial impact for the government	
	2005-2006	2006-2007
2. Fostering wealth creation		
2.1 Corporate tax reform to encourage investment		
– Reduction of more than 50% in the tax on capital	-50	-221
– Increase in the tax rate of large companies	43	174
– Reduction in the tax rate of SMEs	-7	-30
– Introduction of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment	-55	-74
– Increase in capital cost allowance rates	-3	-8
Subtotal	**-72**	**-159**
2.2. Business financing		
– SME Growth Stock Plan	-4	-20
– Assistance for major employment-generating projects in the information technology sector	-5	-10
Subtotal	**-9**	**-30**
2.3 R&D and innovation		
– Increase to 37.5% in the rate of the refundable "R&D salary" tax credit for SMEs	-6	-18
– Broadening of the scope of the design tax credit	-2	-6
Subtotal	**-8**	**-24**
2.4 Support for regional development		
– Extension of tax credits for processing activities in the resource regions	-9	-28
Subtotal	**-9**	**-28**
Subtotal – Encouraging wealth creation	**-98**	**-241**
3. Other measures		
Fuel tax refund in respect of biodiesel fuel	-2	-2
Refundable tax credit for the production of ethanol in Québec	—	-12
Removal of expenses paid for cosmetic purposes from the list of eligible medical expenses	2	5
Subtotal – Other measures	**—**	**-9**
TOTAL IMPACT OF REVENUE MEASURES	**-179**	**-587**

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES 2005-2006 BUDGET SPEECH (CONT.)

(millions of dollars)

	Financial impact for the government	
	2005-2006	2006-2007
B. EXPENDITURE MEASURES		
1. Social housing		
Investments of $145 million in the construction of 2 600 social housing units	–	-1
Additional investment of $15 million for the repair and maintenance of low-rental housing units	-5	–
Subtotal	**-5**	**-1**
2. Homework assistance program	**-10**	**-10**
3. Financial support for museums	**-5**	**—**
4. Productivity enhancement and export development	**-5**	**-5**
5. Proof of concept funding for university research findings	**-2**	**-2**
6. Support for regional development		
Improved forest management	-25	-25
$30-million assistance fund for single-industry towns	-10	-10
Support for workers in forest-based communities	-1	-2
Support for social economy business projects in the regions	-1	-2
Tourism in the regions	-5	–
Greenhouse production - use of alternative energy sources	-3	-2
Local products	-2	-3
Investments in nature park infrastructures	–	-6
Development of a network of protected areas	-1	-1
Subtotal	**-48**	**-51**
7. Québec City's 400th anniversary	**-2**	**-10**
TOTAL IMPACT OF EXPENDITURE MEASURES	**-77**	**-79**
TOTAL IMPACT OF REVENUE MEASURES	**-179**	**-587**
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	**-266**	**-666**

Note: A negative entry indicates a cost for the government.

Finances
Québec

2005-2006

Budget Plan

Budget

Québec

2005-2006

Budget Plan

Budget

April 21, 2005

Finances Québec

2005-2006 Budget
Budget Plan

ISBN 2-551-22718-6
Legal deposit
Bibliothèque nationale du Québec, 2005
Publication date: April 2005
© Gouvernement du Québec, 2005

2005-2006 Budget Plan

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Section 3
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The Québec Economy: Recent Developments and Outlook for 2005 and 2006

This section presents the economic forecasts underpinning the 2005-2006 Budget.

Highlights

Household and business demand for Québec goods and services remained vigorous in 2004. Despite adverse changes in the external sector, economic activity grew by 1.9%, the same rate as in 2003.

Households took advantage of the low interest rates in 2004 to increase their consumption by nearly 4% and their residential investments by over 14%. These investments translated into 58 400 housing starts, a 17-year record. Québec performed particularly well in this area last year, with housing starts gaining little ground in the rest of Canada.

Following a three-year downturn, Québec exports picked up again in 2004 thanks to stronger US demand. Real US GDP growth accelerated to 4.4% in 2004, compared with 3% growth the previous year.

However, like the rest of Canada, Québec was adversely affected by the stronger Canadian dollar. While households took advantage of the high exchange rate to buy more foreign goods, to the detriment of Québec products, businesses increased by 12.2% in 2004 their investments in machinery and equipment, over two thirds of which is imported. The external sector ultimately reduced Québec's economic growth by 2.8 percentage points last year.

In 2004, the Québec economy created 60 800 new jobs and the unemployment rate fell to 8.5%, the lowest level in 30 years. The employment rate peaked at 60.3%, a level never before seen in Québec.

Québec economic activity will gather steam this year and next, thanks to favourable developments in the external sector. The sector's negative contribution to economic growth is expected to ease in 2005 and then become positive again in 2006. The sector will take over from Quebecers' demand for good and services which, while remaining robust in 2005, should moderate beginning in 2006. As a result, the Québec economy will grow by 2.4% in 2005 and 2.6% in 2006.

Global Economic Situation

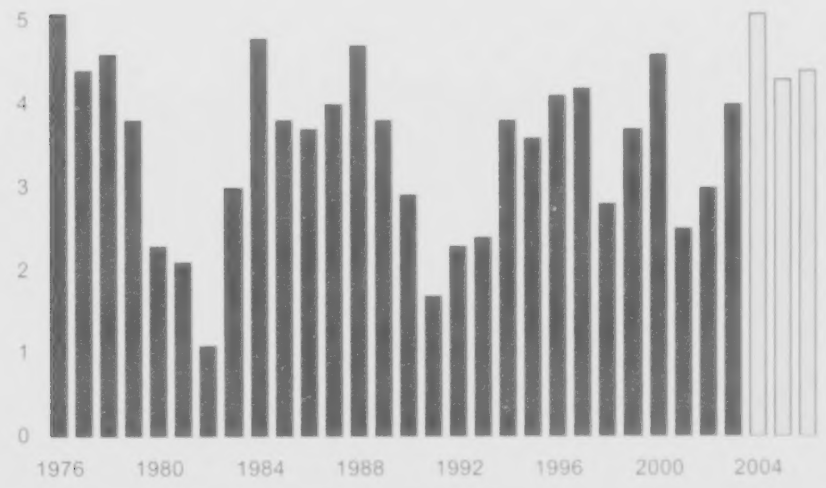
Withdrawal of economic stimuli and slowdown in global demand beginning in 2005

The global economic recovery begun in 2002 got stronger in 2003 with real GDP growth increasing from 3% to 4%. In 2004, the global economy, led by China and the United States, grew at a rate of 5.1%, the best performance in 28 years.

The increase was buoyed by the expansionary monetary and fiscal policies of several countries, particularly the United States. The combined effects of these policies and vigorous global demand spurred investment. Enhanced economic activity in Japan and Europe also contributed to this performance. In 2003, several European countries grappling with budgetary difficulties, including Germany, the Netherlands and Italy, had experienced a recession.

CHART 1.1

GLOBAL ECONOMIC SLOWDOWN IN 2005
(real GDP, annual percentage change)



Source: International Monetary Fund

Beginning in 2005, gradual interest rate hikes by several central banks and a return to greater fiscal discipline should slow the pace of global economic growth a little, to 4.3% in 2005 and 4.4% in 2006. However, these rates are still higher than the average growth rate of 3.5% for the last 20 years.

Robust Asian economy despite a slight slowdown

China, the world's second largest economic power with 13% of global production, maintained the same rate of real GDP growth in 2004 as its average growth rate for the past 20 years, namely 9.5%. This remarkable performance is attributable to the country's investment- and exported-oriented economic policy.

To mitigate the risk of overheating the economy, the Chinese authorities introduced a number of contractionary measures, including credit control, and moderated public investment in infrastructure. These policies were successful in slowing investment growth in 2004, although China's real GDP growth should still be close to 8% in 2005 and 2006, with the country remaining the primary engine of the global economy.

In India, which represents 6% of global production, the service industry will continue to spur the country's economic growth. India has surpassed the United States to become the world's largest exporter of IT services. Its economic activity is expected to increase by 6% in both 2005 and 2006.

TABLE 1.1

ECONOMIC OUTLOOK FOR ASIA
(real GDP, percentage change)

	2003	2004	2005	2006
China	9.3	9.5	8.6	7.9
India	8.2	5.7	6.3	6.0
Japan	1.4	2.6	1.0	1.7

Sources: Consensus Economics and Global Insight

Despite an economic growth rate of 2.6% in 2004, its best performance in eight years, Japan entered a recession in the middle of the year. Affected by the slowdown in Chinese investment and the sharp rise in oil prices, Japanese exports and private consumption weakened and could no longer sustain economic activity.

As a result, Japan's economic growth should slow to 1% in 2005 before strengthening to a rate of 1.7% in 2006. More moderate economic growth in China and the United States, Japan's two main trading partners, as well as a more restrictive fiscal policy aimed at controlling budgetary deficits, should limit Japanese economic activity.

Moderate economic growth in Europe

In 2004, European economic activity recovered from the recession experienced by several countries in 2003. After growing by 1% in 2003, the EU economy expanded by 2.3% in 2004. This expansion is expected to continue, with a real GDP growth rate of around 2% by 2006.

The upswing in economic activity is largely attributable to the recovery in Germany after two years of economic stagnation. The country, which accounts for over 20% of the European Union's total output, benefited from heightened foreign demand for the goods it produces, including machinery, automobiles and chemical products, especially from the United States and United Kingdom.

Germany's economic recovery should nevertheless remain sluggish, with real GDP growth ranging between 0.9% and 1.4% until 2006. The country is grappling with weak domestic demand and, belonging to the euro zone, has few means of stimulating its economy. In fact, the *Stability and Growth Pact* limits Germany's spending capacity by requiring it to keep its budgetary deficit below 3% of GDP, a threshold that the country has already been exceeding since 2002 and that is proving difficult to meet when economic growth is slow. In addition, the common monetary policy keeps interest rates high relative to Germany's own economic situation.

TABLE 1.2

ECONOMIC OUTLOOK FOR EUROPE
(real GDP, percentage change)

	2003	2004	2005	2006
European Union	1.0	2.3	1.9	2.1
- Germany	-0.1	1.6	0.9	1.4
- United Kingdom	2.2	3.1	2.5	2.3
- France	0.5	2.4	1.9	2.1

Source: Consensus Economics.

In the United Kingdom, the service industry is driving economic growth while the production sector has been struggling in recent years. Robust employment and a strong housing market are boosting consumption. With economic growth nearing 2.4% by 2006, the country could extend its cycle of economic boom to over 14 years, a record. Economic activity also picked up in France in 2004, buoyed by household spending. Households took advantage of one-time fiscal measures introduced by the government that allowed them, in particular, to withdraw retirement savings without penalty.

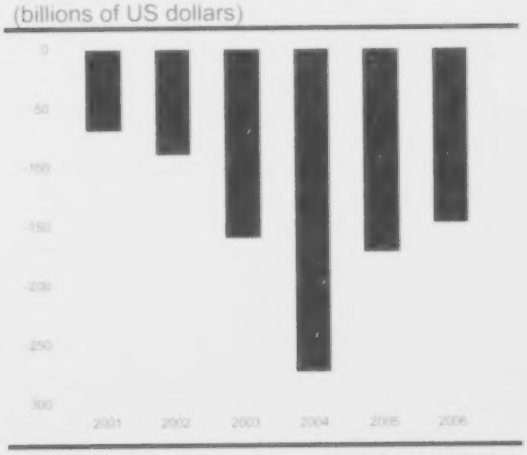
Less expansionary economic policies in the United States and slowdown in US demand

The US economy bounced back from the 2001 recession brought on by the bursting of the speculative technology bubble, the tragic events of September 11 and financial scandals. Economic growth climbed from a rate of 1.9% in 2002 to 3% in 2003 and 4.4% in 2004, which is higher than the average rate in the late 1990s.

The growth rate exceeded 4% in 2004 thanks to major economic stimuli. In 2003, interest rates fell to a 40-year low, with the federal funds rate and 10-year federal bond rate at 1% and 4% respectively. The Bush administration has also introduced unprecedented budgetary stimuli since 2001.

CHART 1.2

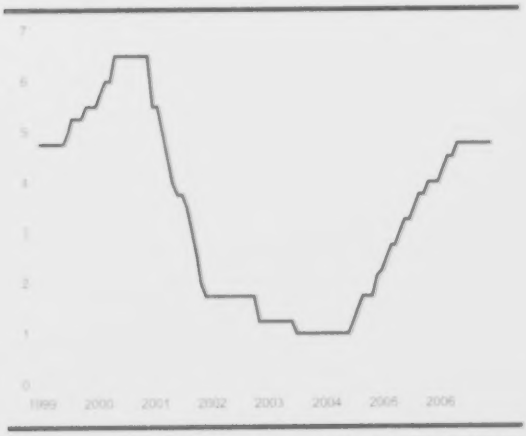
IMPACT OF STIMULUS PLANS ON GOVERNMENT REVENUES
(billions of US dollars)



Source: Office of Management and Budget, Budget 2005.

CHART 1.3

HIKE IN US INTEREST RATES
(federal funds rate, in percent)



Sources: Global Insight and ministère des Finances du Québec.

Tax relief, in particular, reduced government revenues by over US$250 billion in 2004. Economic stimulus plans provide for the gradual expiry of most of these tax cuts by 2010, which should enable the US federal government to gradually restore budgetary balance. However, the gradual easing of fiscal stimuli should have a restrictive effect on the economy.

Encouraged by the subsiding of deflationary risks, employment recovery and the healthier financial position of businesses, the US Federal Reserve began tightening its monetary policy in 2004, raising its key rate by 175 basis points since June 30, 2004. In March, the federal funds rate was 2.75%. The Federal Reserve is expected to continue this trend by raising the rate by another 125 basis points in 2005 and 75 basis points in 2006.

Despite these limiting factors, consumption growth should remain above 3% until 2006 while the job recovery begun last year should take over from budgetary and monetary stimuli.

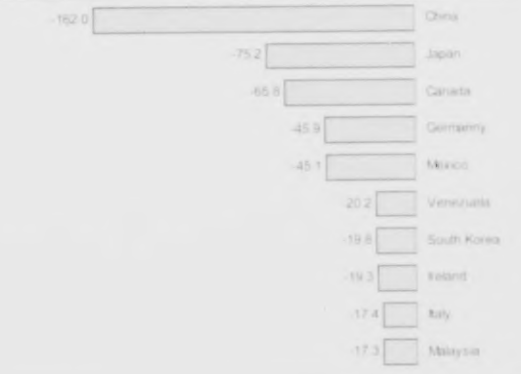
In 2004, US firms regained their financial health of the mid-1990s by exercising tight cost management, reflected by a significant decline in employment between 2001 and 2003. Moreover, credit conditions and the risk premium on corporate securities are currently as favourable as they were in the 1990s, a period characterized by heavy investment. Businesses will benefit from the tax incentives introduced by the Bush administration up until 2005, notably accelerated depreciation of new investment costs. As a result, business investment is expected to increase by 10% in 2005 and another 8% in 2006.

Grappling with a budgetary deficit estimated at nearly 4% of GDP in 2004, the US federal government is expected to moderate its spending considerably, limiting its growth to 3.2% in real terms in 2005, compared with 4.8% in 2004 and 6.6% in 2003.

Furthermore, even though the US dollar has depreciated nearly 30% against the currencies of its major trading partners since February 2002, the trade deficit will remain high in the short run, exceeding US$600 billion by 2006.

CHART 1.4

US TRADE DEFICIT WITH THE COUNTRY'S LARGEST TRADING PARTNERS
(billions of US dollars, 2004)



Source: US Census Bureau

CHART 1.5

STABILIZATION OF US TRADE DEFICIT
(billions of US dollars)

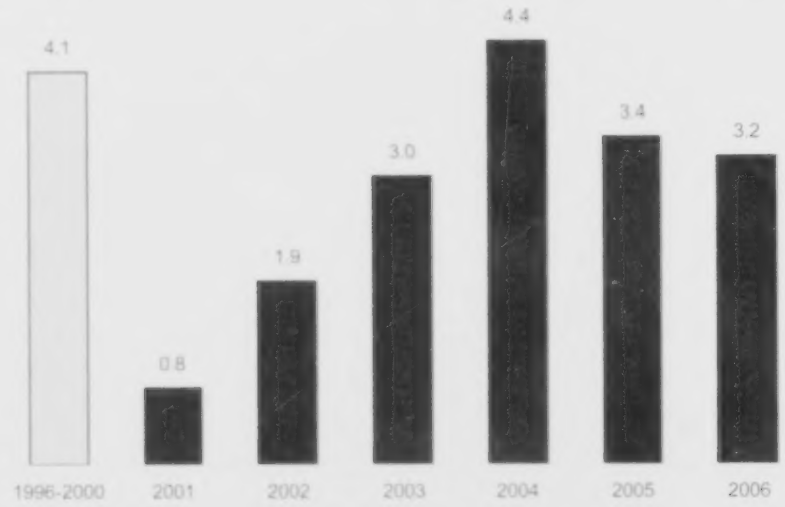
Sources: Global Insight and ministère des Finances du Québec

Considering the economic outlook, foreign demand for American products, particularly from Europe and Asia, should remain moderate and US demand for foreign goods should stay strong despite the US dollar weakness. Moreover, improvement in the trade balance will be limited by the fact that more than a third of foreign purchases, notably from China and members of the Organization of Petroleum Exporting Countries (OPEC), are made in US currency.

In short, the gradual phasing out of stimuli starting in 2005, coupled with persistent economic problems such as budgetary and trade imbalances, should slow US economic growth. Real GDP is expected to increase by 3.4% in 2005 and 3.2% in 2006.

CHART 1.6

SLOWDOWN IN US ECONOMY BEGINNING IN 2005
(real GDP, average annual percentage change)



Sources: Global Insight and ministère des Finances du Québec

Moderate economic recovery in Canada

Spurred by robust domestic demand and a moderate rebound in exports to the United States following three difficult years, the pace of Canadian economic growth picked up in 2004. After rising by 2% in 2003, Canada's real GDP increased by 2.8% last year. Moreover, the subsiding of the negative impacts of special factors occurring in 2003, such as the SARS outbreak and mad cow crisis, boosted the Canadian economy.

However, the 21% appreciation in the Canadian dollar against the US dollar over the last two years hindered economic performance by at once curtailing export growth and stimulating purchases of foreign goods by Canadians. Besides the loss of foreign investor interest in the greenback, the loonie benefited from a sharp rise in the price of raw materials and positive interest rate spreads, appreciating to 76.8 US cents on average in 2004.

The higher dollar has reduced Canadian manufacturing firms' competitiveness and profitability. To offset the sudden rise in the dollar's value and maintain their competitive edge, firms have had to lower the price of their exports to the United States by 9% in the last two years. In spite of this, Americans have seen the price of Canadian goods and services go up 11% since 2003.

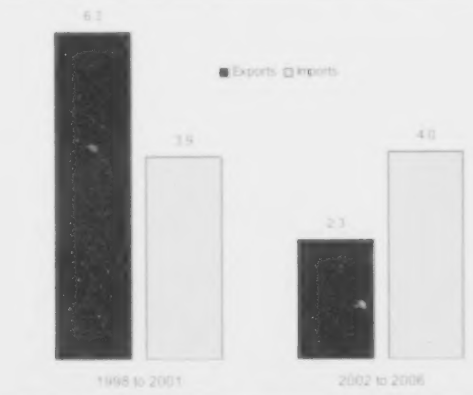
CHART 1.7

THE DOLLAR'S APPRECIATION REDUCED FIRMS' COMPETITIVENESS
(January 2003 = 100)

Sources: Statistics Canada and Bureau of Labor Statistics.

CHART 1.8

THE HIGHER DOLLAR WEIGHED ON THE EXTERNAL SECTOR
(percentage change)



Sources: Statistics Canada and ministère des Finances du Québec

As a result of the rise in the Canadian dollar, the external sector was a drag on economic growth. In the late 1990s, a vigorous US economy and weak Canadian dollar helped boost foreign demand for Canadian products. Canadian exports grew at an average annual rate of 6.3% while purchases of foreign goods expanded at a slower rate of 3.9%. Since 2002, however, the trend has been reversing, with imports growing at a faster pace than exports. This trend should continue until 2006.

Furthermore, according to the Bank of Canada, the economic upturn made it possible to absorb surplus productive capacity halfway through 2004.

This climate will encourage business investment, which should grow by 7.8% in real terms in 2005 and 5.2% in 2006. The increase in production capacity should be close to that of economic activity, which will not allow for the emergence of much surplus capacity.

In this context, the Bank of Canada began a cycle of monetary tightening with increases of 25 basis points on September 8 and October 19, 2004, raising the overnight lending rate to 2.5%. To prevent surplus demand, which might intensify inflationary pressure, the central bank is expected to continue the withdrawal of liquid assets by raising its overnight rate by 125 basis points by the end of 2006.

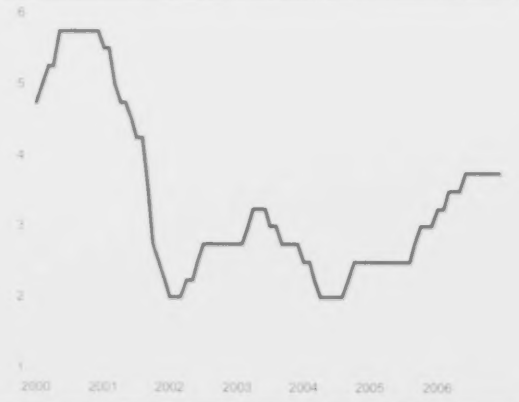
CHART 1.9

CANADIAN PRODUCTION FACILITIES OPERATING NEAR CAPACITY
(relative gap between potential and real output, in percent)

Sources: Bank of Canada and ministère des Finances du Québec.

CHART 1.10

INTEREST RATES WILL CONTINUE TO RISE
(target overnight lending rate, in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

Overall, the recovery begun in 2004 should continue in 2005, with household and business demand remaining robust. However, the residential construction sector is expected to enter a downturn this year. As well, the external sector is expected to remain marginally depressed as a result of the Canadian dollar's strength against the US dollar. In short, the economic growth rate achieved last year should hold steady at 2.8%.

The external sector will not start contributing to economic growth again until 2006, after four years of negative contribution. Economic activity will then grow by 3%, spurred by a slight dip in the Canadian dollar. In fact, a slight downturn in raw material prices combined with negative interest rate gaps between Canada and the US is expected to put downward pressure on the Canadian currency in the coming years.

More specifically, the anticipated global economic slowdown starting in 2005, in addition to the start-up of new mining sites, will moderate the upward pressure on metal prices. As well, the decline in the North American residential construction sector expected in 2005 and 2006 will push lumber prices down. In short, the value of net Canadian exports will slip, dampening demand for Canadian dollars and thereby putting downward pressure on currency prices.

CHART 1.11

RAW MATERIAL PRICES WILL FALL SLIGHTLY
(price of raw materials in US dollars, 1982-1990=100)

Sources: Bank of Canada and ministère des Finances du Québec.

CHART 1.12

CANADA/US INTEREST RATE GAP WILL REVERSE
(gap between Canadian and US overnight rates, in percent)

Sources: Statistics Canada and ministère des Finances du Québec.

Furthermore, the pace of monetary tightening will be much faster in the United States. The Canada/US interest rate gap, which has been positive for the past four years, will become negative again in 2005 and 2006. Seeking a better return, investors will move part of their investment capital to the United States, further driving the currency value down.

The anticipated Canada/US inflation gap also augurs a slight dip in the Canadian currency. According to the purchasing power parity theory, the difference in prices in countries that trade with each other become equivalent in the long run through the exchange rate. Thus, the Canadian dollar should eventually fall back down to near US$0.75. This reflects the fact that Canadian prices are expected to increase more than US prices, the productivity growth of Canadian businesses being lower than that of US businesses.

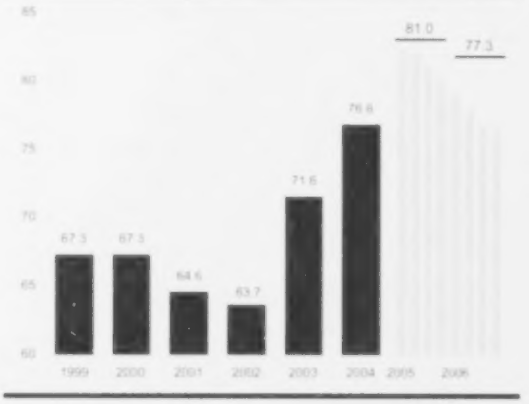
CHART 1.13

PURCHASING POWER PARITY BASED ON PRODUCTION PRICES
(US cents)

Sources: Bank of Canada and ministère des Finances du Québec.

CHART 1.14

CANADIAN DOLLAR WILL DIP SLIGHTLY
(US cents)



Sources: Bank of Canada and ministère des Finances du Québec.

Currently, private-sector forecasters are very divided on the Canadian dollar's future value. The most pessimistic expect the loonie to be worth US$0.74 a year from now, whereas the most optimistic forecasters expect it to be worth $US0.93. In light of the previously explained factors, the value of the Canadian dollar should nevertheless remain high, although another significant and lasting appreciation is not likely.

Economic Situation in Québec

Final domestic demand, bolstered by strong household and business investment, remained vigorous last year, growing by 4.6%.

However, like the rest of Canada, Québec was adversely affected by the stronger Canadian dollar. Households and businesses bought more foreign goods, to the detriment of Québec products. The strong loonie also dampened US demand for Québec capital goods. Even though exports rose in 2004 for the first time in four years, the external sector's contribution to economic growth remained negative, reducing the growth rate by 2.8 percentage points. As a result, real GDP increased by 1.9% in 2004, the same rate as in 2003.

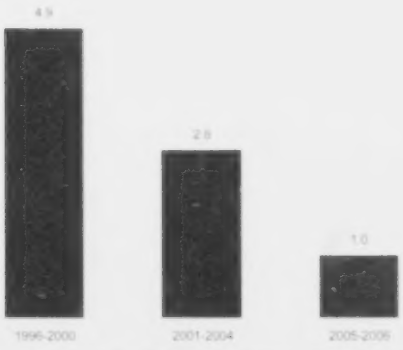
Québec economic activity should pick up starting in 2005, climbing by 2.4% this year and 2.6% in 2006, rates that are near the 20-year trend of 2.4%. Demand for goods and services will remain robust in 2005 and then moderate beginning in 2006. Luckily, the external sector will gradually take over by making a positive contribution to economic growth again as early as 2006.

Anticipated moderation in household spending

In 2003 and 2004, Québec households increased their consumer spending faster than their incomes. This trend appears to have come to an end, however, as households have less leeway to use their savings or rely on credit. Households will thus have to balance their spending with their disposable income.

CHART 1.15

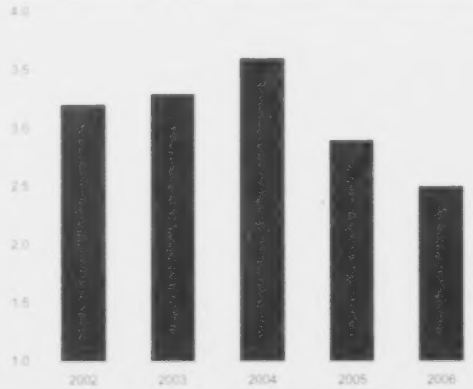
HOUSEHOLD SAVINGS RATE AT A HISTORIC LOW
(rate in percent)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

CHART 1.16

HOUSEHOLDS WILL CURB THEIR SPENDING GROWTH
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

Household indebtedness has risen steadily since 2002, after remaining relatively flat during the previous four years. The increase in mortgage debt that accompanied the housing boom pushed the indebtedness level up from 96% of disposable personal income in 2001 to 104% in 2004. This rise in household credit, although accompanied by an appreciation in the capital assets of households, cannot go on indefinitely and should curb their consumption growth.

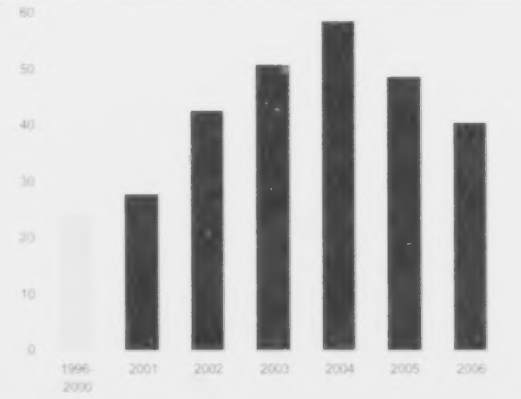
The household savings rate has dropped steadily since the mid-1990s, currently standing at 0.8%. The rate is expected to average 0.9% in 2006, offering little additional support to consumption spending growth. Thus, while disposable personal income is expected to grow by 2.8% in real terms in 2005 and 2.2% in 2006, personal spending should increase by 2.9% and 2.5% respectively.

Robust housing market despite downturn

With 58 400 new units started in 2004, Québec posted its best housing performance in 17 years. On average, 50 000 units were built in each of the last three years, twice the number in the late 1990s. Housing starts are expected to enter a downturn in 2005, with an annual decline of 17%, to 48 600 units. The number of housing starts should fall to 40 500 in 2006, a level that still far outstrips the average of 24 500 units built at the end of the 1990s.

CHART 1.17

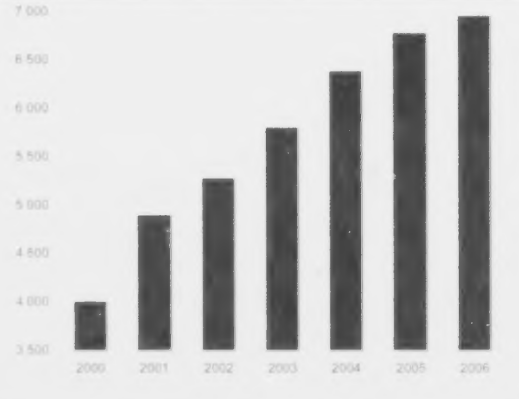
DECLINE IN HOUSING STARTS BEGINNING IN 2005
(thousands)



Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

CHART 1.18

ROBUST SPENDING ON HOME RENOVATION
(millions of constant dollars)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

Apart from the impact of the anticipated interest rate hike, the level of housing starts should be affected, starting in 2005, by more moderate job creation, high prices for building materials and less household formation. The most recent forecasts by the *Institut de la statistique du Québec* predict that household formation in Québec will drop from 43 000 in 2002 to 39 000 in 2006. This downward trend is expected to continue in the coming years with the slowdown in population growth.

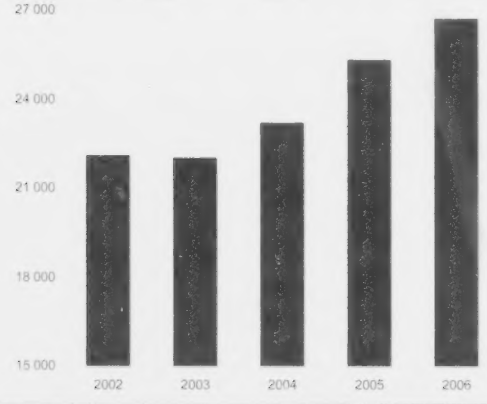
The booming home renovation market should temper the effect of the decline in housing starts. As a rule, an upswing in the resale market leads to major home-improvement spending in the following years. Since 2001, however, housing resales have been very strong with nearly 67 000 transactions a year between 2001 and 2004, compared with an average of 36 000 transactions in the 1990s.

Increase in business investment in machinery and equipment owing to the strong Canadian dollar

After increasing by 9.4% last year, business nonresidential investment should rise 9% in 2005 and 4.7% in 2006.

CHART 1.19

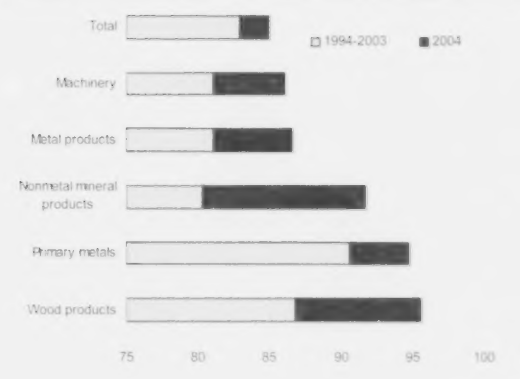
BUSINESS INVESTMENT
(millions of dollars)



Sources: Institut de la statistique du Québec et ministère des Finances du Québec.

CHART 1.20

CANADIAN INDUSTRIAL CAPACITY UTILIZATION RATE
(percent)



Sources: Statistics Canada et ministère des Finances du Québec.

Overall, conditions are conducive to an investment upswing. In several sectors, particularly wood products, primary metal processing, nonmetal mineral products, metal products and machinery, the production capacity utilization rate is actually still very high.

Furthermore, financing costs are low and a higher Canadian dollar has brought the price of imported machinery and equipment down. Oil refineries are upgrading their facilities to meet new environmental standards, and Hydro-Québec will continue to accelerate its spending on construction of hydroelectric complexes to meet the increased energy demand while major wind power projects will be implemented.

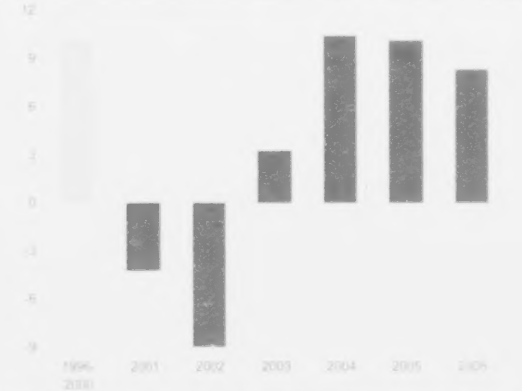
Québec must also compete with extremely strong emerging economies such as China and India. These countries pose a double threat in that they are claiming increasingly large market shares not only in Québec, but also in the United States, our primary trading partner. Québec businesses must adapt as quickly as possible to the rapidly changing global competitive climate by making new investments.

Growth in Québec exports due to US rebound in investment spending

After declining from 2001 to 2003, international merchandise exports, mainly to the United States, picked up again in 2004, growing by 4.4%.

CHART 1.21

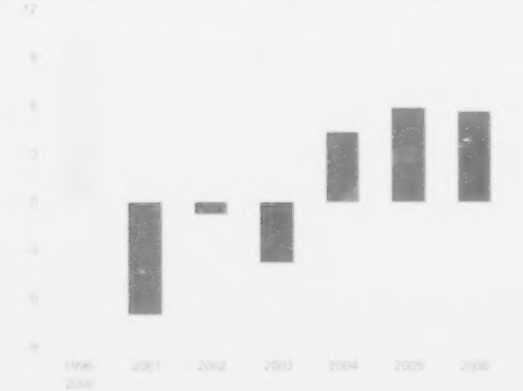
US BUSINESS INVESTMENT
(annual percentage change)



Sources: Global Insight and ministère des Finances du Québec.

CHART 1.22

QUÉBEC INTERNATIONAL MERCHANDISE EXPORTS
(annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

The rebound in investment spending in the United States generated higher demand for Québec capital goods, particularly office machines and equipment and telecommunication equipment. Although the growth in US demand for capital goods will hold steady, the strong Canadian dollar should continue to moderate US demand for Québec products. Québec's international exports are thus expected to grow at a rate of 5.9% in 2005 and 5.7% in 2006, compared with the 10.2% annual growth rate in the late 1990s.

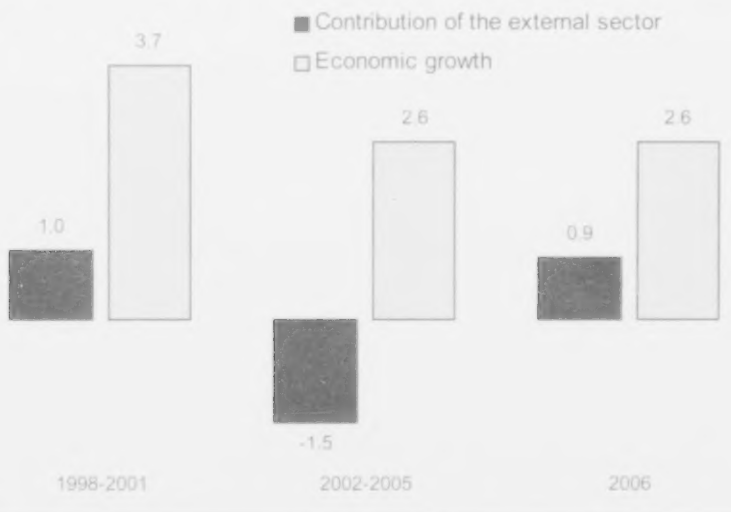
Québec exports to the other provinces will continue to increase at a moderate annual rate of 2% between now and 2006. Québec exports should thus climb by a total of 4.2% in both 2005 and 2006.

Growth in purchases of imported goods will again be substantial in 2005, with Québec businesses and households continuing to take advantage of the high Canadian dollar to buy more foreign goods. With surplus productive capacity being low, businesses are expected to invest in machinery and equipment, over two thirds of which is imported. Nevertheless, beginning in 2006, a slight dip in the Canadian dollar and a moderation in domestic demand will slow import growth from 4.6% in 2005 to 2.7% in 2006.

Whereas the external sector contributed 1 percentage point to Québec's economic growth between 1998 and 2001, it will have reduced growth by 1.5 percentage points between 2002 and 2005 under the negative impact of the sudden rise in the Canadian dollar vis-à-vis the US dollar. The external sector will not start making a positive contribution to economic growth again until 2006, adding 0.9 percentage points.

CHART 1.23

EXTERNAL SECTOR WILL NOT CONTRIBUTE TO ECONOMIC GROWTH UNTIL 2006
(contribution of external sector to real GDP, in percent)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

Lowest unemployment rate in 30 years

Despite the weak external sector, 60 800 jobs were created in Québec in 2004, slightly more than the average for the previous 10 years. All of the jobs created last year are full-time, with no shift in part-time jobs.

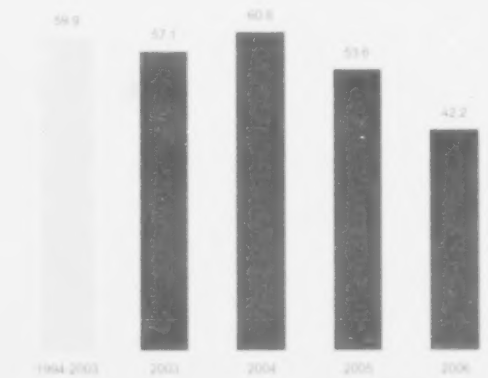
Businesses will slow their hiring somewhat in order to maintain their earnings growth and benefit from past investment. This should translate into the creation of 53 600 jobs in 2005 and another 42 200 in 2006.

Furthermore, never have so many Quebecers been employed as in 2004. The employment rate, i.e. the percentage of the population 15 years of age and over that is employed, was up 0.4 percentage points to a record high of 60.3%. The employment rate is expected to continue rising and reach 60.6% in 2006.

The unemployment rate slid 0.7 percentage points in 2004, to 8.5%, tying the record level achieved in 2000 and representing the best performance in 30 years. Spurred by continued job creation, the unemployment rate is expected to decline further to 8.3% by 2006.

CHART 1.24

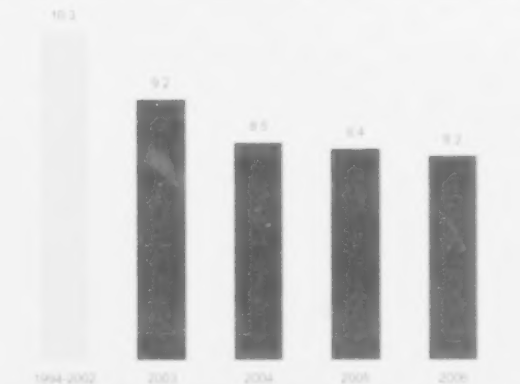
QUÉBEC JOB CREATION
(thousands)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 1.25

HISTORICALLY LOW UNEMPLOYMENT RATE
(rate in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

Higher inflation in 2005 due to higher energy costs

Whereas inflationary pressure moderated in 2004 thanks to the rise in value of the Canadian dollar, which lowered the price of imported goods, inflation should be indirectly affected in 2005 by the sharp increase in oil prices. After going up to 1.9%, the consumer price index should climb to 2.3% this year.

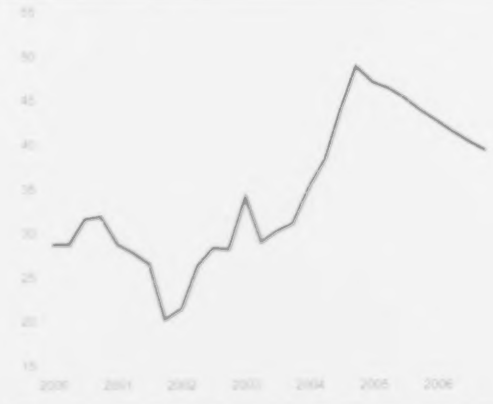
The barrel price of oil reached record levels in 2004. The average monthly market price of West Texas Intermediate (WTI), the US marker crude oil, swelled to US$53 dollars/barrel in October 2004 and has averaged US$50 dollars/barrel ever since.

The sudden rise in oil prices is driven by the surge in global demand. Demand is particularly strong in China, which is responsible for 8% of world consumption and contributed one third of the growth in global demand for crude in 2004. The currently low level of surplus productive capacity and continued geopolitical instability in the Middle East are raising concerns about a global supply shortage and helping keep oil prices high.

As geopolitical tensions ease and new extraction sites open, oil prices should drop slightly to US$40/barrel by 2006. The lower oil prices, coupled with more moderate domestic demand, will translate into a lower inflation rate in Québec, at 1.6% in 2006.

CHART 1.26

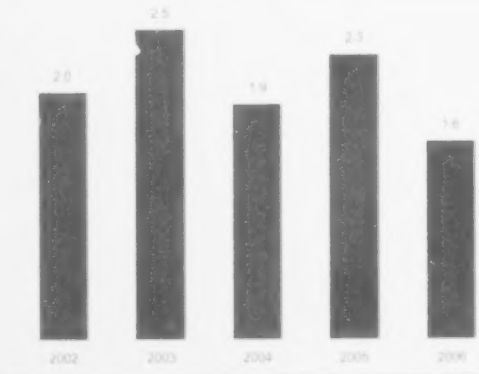
SHARP RISE IN OIL PRICES
(WTI, in US dollars)



Sources: Bloomberg and ministère des Finances du Québec.

CHART 1.27

HIGHER ENERGY COSTS LEAD TO A REBOUND IN CONSUMER PRICES IN 2005
(CPI, percentage change)



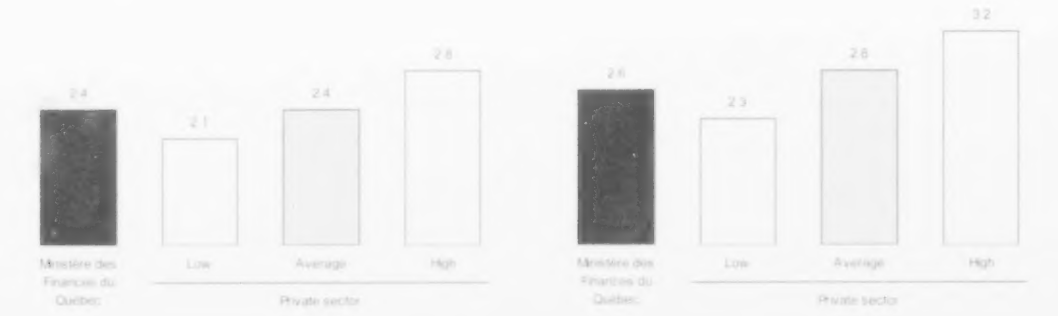
Sources: Statistics Canada and ministère des Finances du Québec.

Comparison with private-sector forecasts

At 2.4%, the 2005-2006 Budget's economic growth forecast for 2005 is the same as private-sector forecasts. The forecasted 2.6% growth in 2006 is slightly lower than private-sector forecasts.

CHART 1.28

MINISTÈRE DES FINANCES' ECONOMIC FORECAST SIMILAR TO PRIVATE-SECTOR FORECAST
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

TABLE 1.2

ECONOMIC OUTLOOK FOR QUÉBEC
(percentage change)

	2004	2005	2006
OUTPUT			
— Real gross domestic product	1.9	2.4	2.6
— Gross domestic product	5.3	4.6	3.8
COMPONENTS OF EXPENDITURE, IN REAL TERMS			
— Consumption	3.6	2.9	2.5
— Residential investment	14.8	-1.1	-7.9
— Nonresidential investment	9.4	9.0	4.7
— Investment in machinery	12.2	8.4	5.1
— Exports	3.4	4.2	4.2
— Imports	8.4	4.6	2.7
OTHER ECONOMIC INDICATORS			
— Consumption	5.0	4.9	3.9
— Housing starts (in thousands)	58.4	48.6	40.5
— Wages and salaries	3.1	3.7	3.6
— Personal income	3.9	4.1	3.7
— Corporate profits	19.0	6.4	5.9
— Consumer prices	1.9	2.3	1.6
LABOUR MARKET			
— Labour force	0.9	1.4	1.1
— Employment	1.7	1.5	1.1
— In thousands	60.8	53.6	42.2
— Unemployment rate[1]	8.5	8.4	8.3
CANADIAN FINANCIAL MARKETS			
— 3-month Treasury bills[1]	2.2	2.7	3.6
— 10-year bonds[1]	4.6	4.4	4.8
— Exchange rate (Canadian dollar in US cents)	76.8	81.0	77.3

1 Rate in percent

Section 2

The Government's Budgetary and Financial Position in 2004-2005 and Public Sector Debt

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The government's budgetary and financial transactions

Preliminary results for the government's budgetary transactions for the 2004-2005 fiscal year show that a balanced budget was achieved.

The revenue of the Consolidated Revenue Fund for fiscal 2004-2005 is revised to $53 389 million, $36 million less than anticipated in the March 30, 2004 Budget. Own-source revenue is adjusted downward by $788 million, while federal transfers are adjusted upward by $752 million.

The expenditure of the Consolidated Revenue Fund amounts to $53 610 million in 2004-2005, a downward revision of $71 million compared with the forecast of March 30, 2004. This revision corresponds to the decline in debt service. The program spending objective set in the last Budget was met.

Consolidated net financial requirements are revised to $412 million, a decrease of $52 million. The net financial requirements of consolidated organizations amount to $964 million and the net financial surpluses of the Consolidated Revenue Fund to $552 million.

With respect to consolidated financing transactions, the consolidated direct debt rose by $5 359 million in 2004-2005. This increase stems mainly from pre-financing for a total of $2 661 and advance deposits of $1 555 million in the retirement plans sinking fund.

TABLE 2.1

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED BUDGETARY AND FINANCIAL TRANSACTIONS[1]
(millions of dollars)

	2003-2004	2004-2005		
	Actual results	Budget Speech of March 30, 2004	Preliminary results	Change compared with Budget
Budgetary transactions of Consolidated Revenue Fund				
Own-source revenue before exceptional losses of SGF	42 241	44 949	44 161	- 788
Federal transfers	9 370	8 476	9 228	752
Total revenue	51 611	53 425	53 389	- 36
Program spending	- 45 302	- 46 742	- 46 742	—
Debt service	- 6 655	- 6 939	- 6 868	71
Total expenditure	- 51 957	- 53 681	- 53 610	71
Net results of consolidated organizations	346	256	221	- 35
Consolidated budget balance before exceptional losses of SGF	0	0	0	0
Exceptional losses of SGF	- 358	—	—	—
Consolidated budget balance[2]	**- 358**	0	0	0
Consolidated non-budgetary transactions				
Investments, loans and advances	- 1 125	- 996	- 1 075	- 79
Capital expenditures	- 1 019	- 1 158	- 919	239
Retirement plans	2 219	2 118	2 174	56
Other accounts	- 1 183	- 428	- 592	- 164
Consolidated non-budgetary requirements	**- 1 108**	**- 464**	**- 412**	52
Consolidated net financial requirements	**- 1 466**	**- 464**	**- 412**	52
Consolidated financing transactions				
Change in cash position	2 316	1 644	- 813	- 2 457
Change in direct debt	1 514	1 365	5 359	3 994
Retirement plans sinking fund	- 2 364	- 2 545	- 4 134	- 1 589
Total financing of consolidated transactions	**1 466**	**464**	**412**	- 52

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Data presented in the 2004-2005 Budget incorporated a downward restatement of $132 million in own-source revenue and program spending, corresponding to the implementation of changes to the family policy from January 1 to March 31, 2005, i.e. during the last three months of the 2004-2005 budget year. The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing an additional decrease in own-source revenue and program spending of $457 million in 2003-2004 and $409 million in 2004-2005.

2 The net results of the specified purpose accounts do not affect the consolidated budget balance. Consequently, no financial data were presented for these accounts in previous budget plans. However, since the revenue and expenditure of the specified purpose accounts were included in the government's consolidated financial statements in 2003-2004, the tables in appendices 2.1 and 2.2, which compare the Budget Plan data with those presented in the consolidated statement of operations in the government's consolidated financial statements, take the impact of these accounts into consideration. In addition, the full data for the specified purpose accounts are presented in Appendix 3.1. It should be noted that the specified purpose accounts were created to administer funds received under contracts or agreements that provide for the allocation of these funds to specific purposes.

Revenue of the Consolidated Revenue Fund

The 2004-2005 Budget anticipated own-source revenue of $44 949 million and federal transfers of $8 476 million. The forecast for own-source revenue is adjusted downward by $788 million compared with the figure announced in the last Budget, while the forecast for federal transfers is raised by $752 million.

Own-source revenue

Own-source revenue is revised downward by $788 million, owing mainly to a $530-million decline in revenue from government enterprises. As for revenue from income tax and other taxes, it is decreased by $258 million.

TABLE 2.2

GOUVERNEMENT DU QUÉBEC - CONSOLIDATED REVENUE FUND
SUMMARY OF THE CHANGE IN OWN-SOURCE REVENUE
(millions of dollars)

	2003-2004	2004-2005			
	Actual results	Budget Speech of March 30, 2004	Preliminary results	Change compared with Budget	Change compared with 2003-2004
					%
Personal income tax	15 678	16 792	16 385	– 407	4.5
Health Services Fund	4 649	4 869	4 844	– 25	4.2
Corporate taxes	3 892	4 248	4 177	– 71	7.3
Consumption taxes	11 641	12 039	12 221	182	5.0
Other sources	2 208	2 178	2 241	63	1.5
Sub-total, excluding government enterprises	**38 068**	**40 126**	**39 868**	**– 258**	**4.7**
Government enterprises before exceptional losses of SGF	4 173	4 823	4 293	– 530	2.9
Total own-source revenue before exceptional losses of SGF	**42 241**	**44 949**	**44 161**	**– 788**	**4.5**

Note: Data restated according to the information provided in Note 1 of Table 2.1.

Preliminary results for personal income tax indicate a decline of $407 million compared with the forecast in the 2004-2005 Budget. Close to half of this revision stems from the weaker-than-anticipated growth in salaries and wages. It can also be attributed to the fact that the compilation of income tax returns, following the tabling of last year's Budget, indicated that income tax payable in 2003 was $100 million less than expected, thus reducing the level used as a basis for the forecast. Lastly, the most recent distribution of source deductions, for 2003 and previous years, reduced personal income tax by $120 million to the benefit of the Health Services Fund.

Despite this adjustment, contributions to the Health Services Fund declined by $25 million. Indeed, the downward revision of salaries and wages offset the positive impact of the new distribution of source deductions.

In spite of an upward adjustment of profits, monitoring of tax revenue indicates that corporate tax revenue must be revised downward by $71 million.

Consumption tax revenue is higher than anticipated, with an upward adjustment of $182 million. This increase is due primarily to additional revenue of $264 million from the sales tax owing to the vitality of consumer spending and residential construction. However, revenue from the tax on tobacco products is revised downward by $73 million.

The upward revision of revenue from other sources is explained mainly by revenue from natural resources, primarily forest royalties. The vitality of softwood lumber prices on the North American market led to a higher-than-anticipated increase in volumes cut.

The profits of government enterprises are adjusted downward by $530 million, mainly because of a $483-million decrease in anticipated revenue of $880 million from the sale of assets or the disposition of investments. The government now expects to realize a net gain of $397 million from the sale of assets, including a net gain of $265 million by Hydro-Québec from the sale of its interest in Noverco inc.

Federal transfers

Federal transfers amount to $9 228 million in 2004-2005. The upward revision of $752 million compared with the forecast in the 2004-2005 Budget can be attributed mainly to the results of the first ministers' meeting in the fall of 2004.

TABLE 2.3

GOUVERNEMENT DU QUÉBEC - CONSOLIDATED REVENUE FUND
SUMMARY OF THE CHANGE IN FEDERAL TRANSFERS
(millions of dollars)

	2003-2004	2004-2005			
	Actual results	Budget Speech of March 30, 2004	Preliminary results	Change compared with Budget	Change compared with 2003-2004
					%
Equalization	4 065	4 942	5 221	279	28.4
Canada Health and Social Transfer (CHST)	4 266	2 890	3 343	453	– 21.6
Other transfers related to fiscal arrangements	64	25	33	8	– 48.4
Other programs	975	619	631	12	– 35.3
Total federal transfers	**9 370**	**8 476**	**9 228**	**752**	**– 1.5**

Equalization revenue is revised upward by $279 million compared with the figure anticipated in the 2004-2005 Budget. This revision stems primarily from the new equalization framework announced by the federal government at the first ministers' meeting in October 2004.

Revenue from the Canada Health and Social Transfer is adjusted upward by $453 million, essentially because of the Health Accord concluded in September 2004, which raised this transfer by $502 million for Québec.

Expenditure of the Consolidated Revenue Fund

The program spending objective set for fiscal 2004-2005 in the March 30, 2004 Budget was met. In addition, total spending was adjusted downward by $71 million, to $53 610 million. This decrease stems from the $71-million downward revision of debt service.

TABLE 2.4

GOUVERNEMENT DU QUÉBEC - CONSOLIDATED REVENUE FUND
SUMMARY OF THE CHANGE IN EXPENDITURE
(millions of dollars)

	2003-2004	2004-2005			
	Actual results	Budget Speech of March 30, 2004	Preliminary results	Change compared with Budget	Change compared with 2003-2004
					%
Program spending	45 302	46 742	46 742	—	3.2
Debt service					
Direct debt service	3 913	4 131	4 080	- 51	4.3
Interest ascribed to retirement plans[1]	2 742	2 808	2 788	- 20	1.7
Total debt service	6 655	6 939	6 868	- 71	3.2
Total expenditure	**51 957**	**53 681**	**53 610**	**- 71**	**3.2**

Note: Data restated according to the information provided in Note 1 of Table 2.1.
1 Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

Debt service currently amounts to $6 868 million, of which $4 080 million is for direct debt service and $2 788 million for interest ascribed to the retirement plans.

The $71-million downward revision of debt service reflects, for the most part, the better-than-expected results of the sinking fund for borrowings and the retirement plans sinking fund; the revenue of these funds is recorded as a reduction of debt service.

Budgetary transactions of consolidated organizations

The net results of consolidated organizations amount to $221 million, $35 million less than forecast in the March 2004 Budget. This decrease in net results is due to the allocation of adjustments among a large number of organizations.

TABLE 2.5

GOUVERNEMENT DU QUÉBEC - CONSOLIDATED ORGANIZATIONS
SUMMARY OF BUDGETARY TRANSACTIONS
(millions of dollars)

	2003-2004				2004-2005
	Actual results	Budget Speech of March 30, 2004	Preliminary results	Change compared with Budget	Change compared with 2003-2004
					%
Own-source revenue	2 318	2 395	2 283	– 112	– 1.5
Federal transfers	564	495	540	45	– 4.3
Total revenue	2 882	2 890	2 823	– 67	– 2.0
Expenditure excluding debt service	– 1 950	– 1 980	– 1 988	– 8	1.9
Debt service	– 586	– 654	– 614	40	4.8
Total expenditure	– 2 536	– 2 634	– 2 602	32	2.6
Net results	**346**	**256**	**221**	**– 35**	**– 36.1**

Consolidated non-budgetary transactions

Consolidated non-budgetary transactions have been revised downward by $52 million since the March 30, 2004 Budget, to $412 million.

TABLE 2.6

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED NON-BUDGETARY TRANSACTIONS
(millions of dollars)

			2004-2005
	Budget Speech of March 30, 2004	Preliminary results	Change
Consolidated Revenue Fund			
Investments, loans and advances			
Government enterprises	- 816	- 825	- 9
Municipalities, municipal bodies, individuals, corporations and others	- 18	- 4	14
	- 834	- 829	5
Capital expenditures	- 93	- 94	- 1
Retirement plans	2 118	2 174	56
Other accounts	- 435	- 478	- 43
Total Consolidated Revenue Fund	**756**	**773**	**17**
Consolidated organizations			
Capital expenditures	- 1 065	- 825	240
Other	- 155	- 360	- 205
Total consolidated organizations	**- 1 220**	**- 1 185**	**35**
Consolidated non-budgetary requirements	**- 464**	**- 412**	**52**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

Preliminary results of the Consolidated Revenue Fund for investments, loans and advances show a $5-million decline in funding requirements compared with the March 2004 forecast.

Non-budgetary requirements regarding the retirement plans changed downward by $56 million compared with the 2004-2005 Budget. This decrease can be attributed mainly to the recording of the government's expenditures as employer that were not disbursed during the fiscal year.

Transactions related to other non-budgetary accounts represent year-to-year changes in these financial items. These accounts, which include, in particular, cash and bills on hand, outstanding cheques, accounts receivable and accounts payable, can fluctuate a great deal because of the variability of government cash inflow and disbursements. For 2004-2005, the balance of the other accounts of the Consolidated Revenue Fund entails a $43-million increase in financial requirements.

The reduction in the financial requirements of consolidated organizations amounts to $35 million.

Financing

Preliminary results for 2004-2005 show that the change in direct debt amounts to $5 359 million, i.e. $4 395 million for the Consolidated Revenue Fund and $964 million for consolidated organizations. Borrowings in fiscal 2004-2005 amount to $12 412 million, or $10 214 million for the Consolidated Revenue Fund and $2 198 million for consolidated organizations. It should be noted that pre-financing of $2 661 million was obtained and will be used to cover part of the 2005-2006 borrowing program of the Consolidated Revenue Fund.

TABLE 2.7

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCING TRANSACTIONS
(millions of dollars)

			2004-2005
	Budget Speech of March 30, 2004	Preliminary results	Change
Change in cash position			
Consolidated Revenue Fund	1 644	– 813	– 2 457
Consolidated organizations	—	—	—
Total change in cash position	1 644	– 813	– 2 457
Change in direct debt			
Consolidated Revenue Fund			
New borrowings	5 704	10 214	4 510
Repayment of borrowings	– 5 303	– 5 819	– 516
	401	4 395	3 994
Consolidated organizations			
New borrowings	2 180	2 198	18
Repayment of borrowings	– 1 216	– 1 234	– 18
	964	964	—
Total change in direct debt	1 365	5 359	3 994
Retirement plans sinking fund	– 2 545	– 4 134	– 1 589
Total financing of consolidated transactions	464	412	– 52

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

Financing of the Consolidated Revenue Fund

Preliminary results show that the change in the direct debt of the Consolidated Revenue Fund is $4 395 million, an increase of $3 944 million compared with the figure announced in the 2004-2005 Budget Speech. Borrowings in 2004-2005 amount to $10 214 million, $4 510 million more than expected in the last Budget, mainly on account of pre-financing of $2 661 million and advance deposits in the retirement plans sinking fund (RPSF). The Consolidated Revenue Fund contracted a large borrowing on the European market in February (1 500 million euros, or CAN$2 381 million), allowing deposits of $1.5 billion that were to be made in the RPSF in 2005-2006 to be made immediately.

Owing to pre-financing, the cash level will increase by $813 million, even though a reduction of $1 644 million was forecast in the last Budget.

Financing of consolidated organizations

Preliminary results show that the change in the direct debt of consolidated organizations amounts to $964 million, as anticipated in the last Budget.

Borrowings

In all, the government contracted long-term borrowings of $12 525 million in 2004-2005, of which $10 214 million was for Consolidated Revenue Fund needs and $2 311 million for the Financing Fund. The borrowings of the Financing Fund are used to meet the financing needs of consolidated organizations ($2 198 million) and certain government enterprises ($113 million).

In all, 70% of the financing program, or $8 782 million, was conducted in Canadian dollars. In regard to the main financial instruments used, eight public bond issues were carried out on the Canadian market for a total of $4 102 million. Real return issues for a total of $551 million were also carried out. In addition, medium-term notes were issued on the Canadian market for $1 767 million, and on the European market for $1 341 million. Furthermore, savings products sold by Épargne Placements Québec should provide the government with $743 million in financing.

Lastly, 30% of the financing program was conducted in foreign currency. A public bond issue was carried out on the US market for US$1 000 million (CAN$1 362 million) in May 2004. A public bond issue was also carried out on the European market for 1 500 million euros (CAN$2 381 million) in February 2005.

TABLE 2.8

GOUVERNEMENT DU QUÉBEC
SUMMARY OF LONG-TERM BORROWINGS IN 2004-2005
(millions of dollars)

Currency	Consolidated Revenue Fund	Consolidated organizations	Government enterprises	Total	%
Canadian dollar					
Public issues					
Negotiable bonds	3 181	808	113	4 102	46.7
Real return bonds	551	—	—	551	6.3
Medium-term notes					
On the Canadian market	1 400	367	—	1 767	20.1
On the European market	658	683	—	1 341	15.3
Private issues					
Canada Pension Plan Investment Fund	5	—	—	5	0.1
Savings products	743	—	—	743	8.4
Immigrant Investor Program	585	—	—	585	6.7
Change in debt resulting from currency swaps	– 312	—	—	– 312	– 3.6
Sub-total	**6 811**	**1 858**	**113**	**8 782**	**70.1**
US dollar					
Public issue	1 022[1]	340[1]	—	1 362	100.0
Sub-total	**1 022**	**340**	**—**	**1 362**	**10.9**
Euro					
Public issue	2 381	—	—	2 381	100.0
Sub-total	**2 381**	**—**	**—**	**2 381**	**19.0**
Total	**10 214**	**2 198**	**113**	**12 525**	**100.0**

1 The original borrowing was for US$1 000 million (CAN$1 362 million). An amount of CAN$340 million derived from this borrowing was advanced to the Financing Fund in order to be loaned to consolidated organizations.

The following charts show the change in yield on 10-year bonds and Treasury bills in recent years.

CHART 2.1

YIELD ON LONG-TERM (10-YEAR) SECURITIES

CHART 2.2

YIELD SPREAD ON LONG-TERM (10-YEAR) SECURITIES

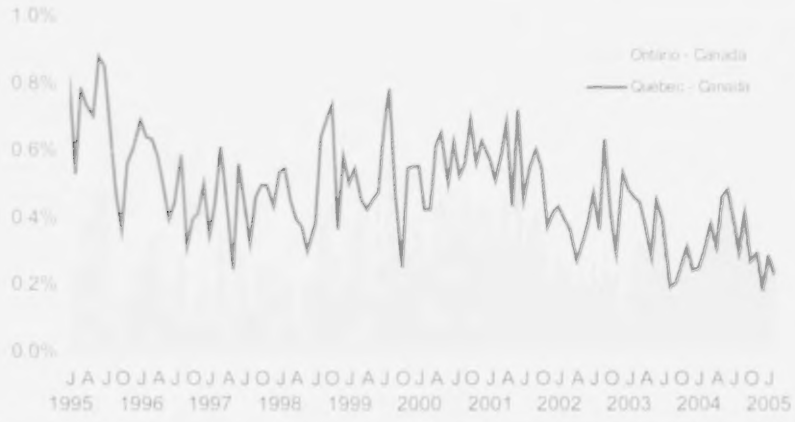
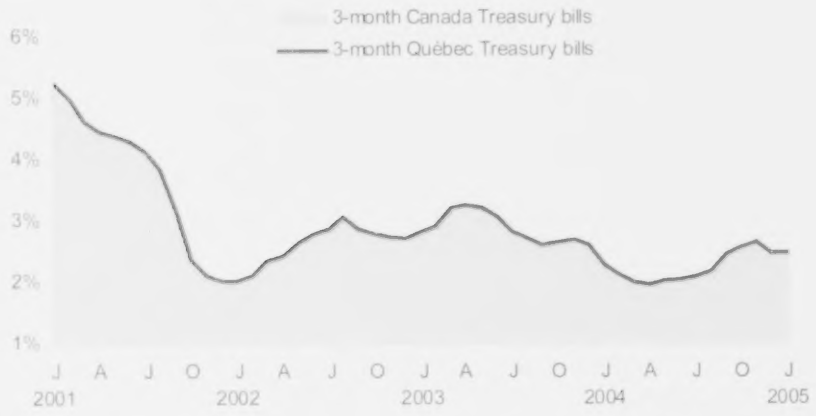

1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
Ontario - Canada
Québec - Canada
J A J O J A J O J A J O J A J O J A J O J A J O J A J O J A J O J A J O J A J O J
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005

CHART 2.3

YIELD ON SHORT-TERM SECURITIES



Repayment of borrowings

Preliminary results show that the repayment of borrowings of the Consolidated Revenue Fund and consolidated organizations for fiscal 2004-2005 amounts to $7 053 million, $534 million more than forecast in the March 30, 2004 Budget Speech.

Repayment of borrowings of the Consolidated Revenue Fund

Preliminary results show that the repayment of borrowings of the Consolidated Revenue Fund amounts to $5 819 million in 2004-2005, $516 million more than forecast in the Budget Speech of March 30, 2004. This increase is due in particular to higher-than-anticipated repayments of savings products and higher-than-expected revenue of the sinking fund for government borrowings.

Repayment of borrowings of consolidated organizations

Preliminary results show that the repayment of borrowings of consolidated organizations for fiscal 2004-2005 stands at $1 234 million, $18 million more than forecast in the last Budget.

Total government debt

The government's total debt consists of the consolidated direct debt and the net retirement plans liability. The consolidated direct debt is the sum of the direct debt of the Consolidated Revenue Fund and the debt of consolidated organizations. The net retirement plans liability consists of the retirement plans liability minus the balance of the retirement plans sinking fund (RPSF), an asset that will eventually be used to pay the retirement benefits of public and parapublic sector employees.

Preliminary results show that the government's consolidated direct debt amounts to $82 929 million as at March 31, 2005, or $72 364 million as direct debt of the Consolidated Revenue Fund and $10 565 million as debt of the consolidated organizations.

TABLE 2.9

TOTAL GOVERNMENT DEBT AS AT MARCH 31, 2005[1]
(millions of dollars)

	Consolidated direct debt			Retirement plans			
	Consolidated Revenue Fund	Consolidated organizations	Total	Retirement plans liability	Retirement plans sinking fund	Net retirement plans liability	Total debt
Debt as at March 31, 2005	72 364	10 565	82 929	54 659	– 18 338	36 321	119 250
Pre-financing	– 2 661	—	– 2 661	—	—	—	– 2 661
Total	**69 703**	**10 565**	**80 268**	**54 659**	**– 18 338**	**36 321**	**116 589**

1 Preliminary results.

It should be noted that an amount of $2 661 million included in the consolidated direct debt represents pre-financing in 2004-2005 that will be used to cover part of the borrowing program in 2005-2006.

As at March 31, 2005, the net retirement plans liability stands at $36 321 million.

Excluding pre-financing, the government's total debt is $116 589 million as at March 31, 2005.

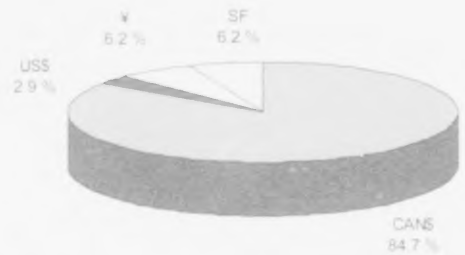
Structure of debt

As at March 31, 2005, the proportion of the direct debt of the Consolidated Revenue Fund in Canadian dollars amounts to 84.7% and the proportion in foreign currency, 15.3%. In addition, the share at fixed interest rates and the share at variable interest rates is 65.1% and 34.9% respectively.

CHART 2.4

STRUCTURE OF THE DIRECT DEBT OF THE CONSOLIDATED REVENUE FUND AS AT MARCH 31, 2005[1]

BY CURRENCY



BY INTEREST RATE

1 Preliminary results

Including the debt of consolidated organizations and the net retirement plans liability, the proportion of the total debt in Canadian dollars amounts to 90.7% and that in foreign currency, 9.3% as at March 31, 2005.

TABLE 2.10

STRUCTURE OF THE TOTAL DEBT AS AT MARCH 31, 2005[1]
(millions of dollars)

	Consolidated direct debt							
Currency	Consolidated Revenue Fund	%	Consolidated organizations	Total	%	Net retirement plans liability	Total debt	%
Canadian dollar	61 271	84.7	10 565	71 836	86.6	36 321	108 157	90.7
US dollar	2 133	2.9	—	2 133	2.6	—	2 133	1.8
Yen	4 471	6.2	—	4 471	5.4	—	4 471	3.7
Swiss franc	4 492	6.2	—	4 492	5.4	—	4 492	3.8
Pound sterling	- 3	—	—	- 3	—	—	- 3	—
Sub-total	**72 364**	**100.0**	**10 565**	**82 929**	**100.0**	**36 321**	**119 250**	**100.0**
Pre-financing	- 2 661		—	- 2 661		—	- 2 661	
Total	**69 703**		**10 565**	**80 268**		**36 321**	**116 589**	

Note: The debt in foreign currency is expressed in Canadian equivalent based on the exchange rates in effect on March 31, 2005.
1 Preliminary results.

Long-term public sector debt

Long-term public sector debt includes the government's total debt as well as the debts of the networks, Hydro-Québec, the municipalities and other government enterprises. In many cases, this debt has served to finance public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water purification plants.

Preliminary results show that the public sector debt amounts to $183 442 million as at March 31, 2005, or 68.7% of gross domestic product (GDP).

TABLE 2.11

LONG-TERM PUBLIC SECTOR DEBT[1]
(millions of dollars)

	As at March 31				
	2001	**2002**	**2003**	**2004**	**2005**[2]
Total government debt[3]	104 848	107 175	111 342	114 725	116 589
Health and social services and education networks	8 787	9 588	11 008	10 877	12 302
Hydro-Québec	38 979	37 893	35 639	34 348	33 032
Other government enterprises	4 345	3 906	3 955	3 575	3 724
Municipalities and municipal bodies[4]	16 699	16 777	16 530	17 212	17 795
Total	**173 658**	**175 339**	**178 474**	**180 737**	**183 442**
As a % of GDP	**77.2**	**76.0**	**73.2**	**71.3**	**68.7**

1 Including Treasury bills outstanding of the Consolidated Revenue Fund and the Financing Fund. As at March 31, 2005, outstanding Treasury bills amount to $2 112 million for the Consolidated Revenue Fund and $1 196 million for the Financing Fund. The Treasury bills of the Financing Fund are used to meet the financing needs of consolidated organizations, the Société québécoise d'assainissement des eaux and certain government enterprises.

2 Preliminary results.

3 Consolidated direct debt and net retirement plans liability, excluding pre-financing totalling $1 475 million in 2000-2001, $1 154 million in 2001-2002, $4 132 million in 2002-2003, $1 848 million in 2003-2004 and $2 661 million in 2004-2005. These borrowings are allocated to the years to which they apply.

4 Includes the long-term debt of the Société québécoise d'assainissement des eaux.

Historical data and preliminary results

TABLE 2.12

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED BUDGETARY AND FINANCIAL TRANSACTIONS[1]
(millions of dollars)

	2001-2002	2002-2003	2003-2004	2004-2005 [2]
Budgetary transactions of Consolidated Revenue Fund				
Own-source revenue before exceptional losses of SGF	38 506	40 720	42 241	44 161
Federal transfers	8 885	8 932	9 370	9 228
Total revenue	47 391	49 652	51 611	53 389
Program spending	- 41 863	- 43 837	- 45 302	- 46 742
Debt service	- 6 687	- 6 583	- 6 655	- 6 868
Total expenditure	- 48 550	- 50 420	- 51 957	- 53 610
Net results of consolidated organizations	322	379	346	221
Budgetary reserve				
Use of funds allocated to reserve	950	—	—	—
Consolidated budget balance before exceptional losses of SGF	**113**	**- 389**	**0**	**0**
Exceptional losses of SGF	- 91	- 339	- 358	—
Consolidated budget balance[3]	**22**	**- 728**	**- 358**	**0**
Consolidated non-budgetary transactions				
Investments, loans and advances	- 1 142	- 1 651	- 1 125	- 1 075
Capital expenditures	- 995	- 1 482	- 1 019	- 919
Retirement plans	2 089	2 007	2 219	2 174
Other accounts	- 589	217	- 1 183	- 592
Consolidated non-budgetary requirements	**- 637**	**- 909**	**- 1 108**	**- 412**
Consolidated net financial requirements	**- 615**	**- 1 637**	**- 1 466**	**- 412**
Consolidated financing transactions				
Change in cash position	236	- 3 090	2 316	- 813
Change in direct debt	3 519	6 368	1 514	5 359
Retirement plans sinking fund	- 3 140	- 1 641	- 2 364	- 4 134
Total financing of consolidated transactions	**615**	**1 637**	**1 466**	**412**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Data presented in the 2004-2005 Budget incorporated a downward restatement of $132 million in own-source revenue and program spending, corresponding to the implementation of changes to the family policy from January 1 to March 31, 2005, i.e. during the last three months of the 2004-2005 budget year. The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing an additional decrease in own-source revenue and program spending of $457 million in 2003-2004 and $409 million in 2004-2005.

2 Preliminary results.

3 The net results of the specified purpose accounts do not affect the consolidated budget balance. Consequently, no financial data were presented for these accounts in previous budget plans. However, since the revenue and expenditure of the specified purpose accounts were included in the government's consolidated financial statements in 2003-2004, the tables in appendices 2.1 and 2.2, which compare the Budget Plan data with those presented in the consolidated statement of operations in the government's consolidated financial statements, take the impact of these accounts into consideration. In addition, the full data for the specified purpose accounts are presented in Appendix 3.1. It should be noted that the specified purpose accounts were created to administer funds received under contracts or agreements that provide for the allocation of these funds to specific purposes.

TABLE 2.13

GOUVERNEMENT DU QUÉBEC - CONSOLIDATED REVENUE FUND
REVENUE BY SOURCE BEFORE THE EXCEPTIONAL LOSSES OF SGF FROM 2001-2002 TO 2003-2004
(millions of dollars)

	2001-2002	2002-2003	2003-2004	2004-2005 [1]
Own-source revenue				
Income and property taxes				
Personal income tax	15 274	15 569	15 678	16 385
Contributions to Health Services Fund	4 291	4 068	4 649	4 844
Corporate taxes	4 029	3 735	3 892	4 177
	23 594	23 372	24 219	25 406
Consumption taxes				
Retail sales	7 294	8 051	8 658	9 219
Fuel	1 536	1 645	1 685	1 682
Tobacco	652	867	889	913
Alcoholic beverages [2]	384	416	409	407
	9 866	10 979	11 641	12 221
Duties and permits				
Motor vehicles	662	690	707	723
Natural resources	188	201	108	176
Other [2]	196	197	206	200
	1 046	1 088	1 021	1 099
Miscellaneous				
Sales of goods and services	412	440	399	377
Interest	395	321	317	354
Fines, forfeitures and recoveries	371	417	471	411
	1 178	1 178	1 187	1 142
Revenue from government enterprises before exceptional losses of SGF				
Société des alcools du Québec	489	540	571	547
Loto-Québec	1 352	1 353	1 393	1 494
Hydro-Québec	1 041	1 842	2 049	2 115 [3]
Other	- 60	368	160	137 [3]
	2 822	4 103	4 173	4 293
Total own-source revenue before exceptional losses of SGF	**38 506**	**40 720**	**42 241**	**44 161**
Federal transfers				
Equalization	5 336	5 315	4 065	5 221
Canada Health and Social Transfer	2 958	2 648	4 266	3 343
Other transfers related to fiscal arrangements	27	34	64	33
Other programs	564	935	975	631
Total federal transfers	**8 885**	**8 932**	**9 370**	**9 228**
Total revenue before exceptional losses of SGF	**47 391**	**49 652**	**51 611**	**53 389**

Note: Data restated according to the information provided in Note 1 of Table 2.12.

1 Preliminary results.

2 Given that the specific and *ad valorem* duties on alcoholic beverages were abolished in September 2004 and replaced by a specific tax at higher rates, revenue associated with the tax on alcoholic beverages will henceforth be grouped in the consumption taxes section and presented under a separate heading. Duties from the sale of liquor permits ($20 million in 2004-2005) will be recorded under other duties and permits.

3 Including the exceptional gain of $265 million realized by Hydro-Québec on the sale of its interest in Noverco inc., the preliminary results amount to $2 380 million. This exceptional gain of $265 million was entered under "Other."

TABLE 2.14

GOUVERNEMENT DU QUÉBEC - CONSOLIDATED REVENUE FUND
EXPENDITURE BY DEPARTMENT
(millions of dollars)

	2001-2002	2002-2003	2003-2004	2004-2005 [1]
Program spending				
Assemblée nationale	88	92	94	94
Personnes désignées par l'Assemblée nationale	50	63	90	58
Affaires municipales et Régions	1 578	1 554	1 543	1 639
Agriculture, Pêcheries et Alimentation	651	641	663	660
Conseil du trésor et Administration gouvernementale	456	500	412	435
Conseil exécutif	98	144	170	219
Culture et Communications	479	490	512	522
Développement durable, Environnement et Parcs	205	205	207	183
Développement économique, Innovation et Exportation	873	905	539	582
Education, Loisir et Sport	10 615	11 167	11 575	11 881
Emploi et Solidarité sociale	4 036	4 120	4 153	4 083
Famille, Aînés et Condition féminine	1 131	1 275	1 432	1 500
Finances (excluding debt service)	116	125	111	149
Immigration et Communautés culturelles	135	156	133	107
Justice	531	565	597	633
Relations internationales	111	111	112	98
Ressources naturelles et Faune	440	440	437	379
Revenu	613	778	717	622
Santé et Services sociaux	17 186	17 916	19 073	20 036
Sécurité publique	799	871	935	940
Services gouvernementaux	32	39	36	44
Tourisme	109	143	146	146
Transports	1 443	1 467	1 547	1 657
Travail	88	70	68	75
Total program spending	**41 863**	**43 837**	**45 302**	**46 742**
Debt service				
Direct debt service	3 970	3 935	3 913	4 080
Interest ascribed to retirement plans	2 717	2 648	2 742	2 788
Total debt service	**6 687**	**6 583**	**6 655**	**6 868**
Total expenditure	**48 550**	**50 420**	**51 957**	**53 610**

Note: Data restated according to the information provided in Note 1 of Table 2.12.

1 Preliminary results.

TABLE 2.15

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED NON-BUDGETARY TRANSACTIONS
(millions of dollars)

	2001-2002	2002-2003	2003-2004	2004-2005 [1]
Investments, loans and advances				
Consolidated Revenue Fund				
Government enterprises				
Shares and investments				
Société générale de financement du Québec	- 550	- 200	—	—
Société Innovatech du Grand Montréal	- 20	- 50	—	80
Société Innovatech Québec et Chaudière-Appalaches	- 29	- 30	- 2	—
Société Innovatech du sud du Québec	- 19	- 11	—	- 2
Société Innovatech Régions ressources	- 12	- 8	- 9	- 1
Other	- 18	- 41	285	—
	- 648	- 340	274	77
Change in the equity value of investments	- 371	- 1 140	- 786	- 902
Total government enterprises	- 1 019	- 1 480	- 512	- 825
Individuals, corporations and others	- 173	- 45	19	- 6
Municipalities and municipal bodies	4	2	5	2
	- 1 188	- 1 523	- 488	- 829
Consolidated organizations	46	- 128	- 637	- 246
Total investments, loans and advances	**- 1 142**	**- 1 651**	**- 1 125**	**- 1 075**
Capital expenditures				
Consolidated Revenue Fund				
Net investments	- 135	- 200	- 159	- 306
Amortization	193	207	200	212
	58	7	41	- 94
Consolidated organizations	- 1 053	- 1 489	- 1 060	- 825
Total capital expenditures	**- 995**	**- 1 482**	**- 1 019**	**- 919**

1 Preliminary results.

TABLE 2.15 (CONT.)

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED NON-BUDGETARY TRANSACTIONS
(millions of dollars)

	2001-2002	2002-2003	2003-2004	2004-2005 [1]
Retirement plans				
Contributions by the government as employer				
RREGOP and RRPE				
Cost of credited service[2]	1 014	1 053	1 248	1 223
Amortization of actuarial gain (-) or loss	141	155	156	153
Other plans				
Cost of credited service[2]	147	170	144	106
Amortization of actuarial gain (-) or loss	65	70	70	73
Cost of changes	28	3	—	—
Total government contribution	1 395	1 451	1 618	1 555
Contributions by independent employers	4	4	5	5
Participants' contributions	88	76	146	143
Total contributions	92	80	151	148
Benefits, repayments and administrative expenses	- 2 720	- 2 913	- 3 154	- 3 249
Interest on actuarial obligation	3 322	3 389	3 604	3 720
Total retirement plans	**2 089**	**2 007**	**2 219**	**2 174**
Other accounts				
Consolidated Revenue Fund	- 652	257	- 1 220	- 478
Consolidated organizations	63	- 40	37	- 114
Total other accounts	**- 589**	**217**	**- 1 183**	**- 592**
Total consolidated non-budgetary transactions	**- 637**	**- 909**	**- 1 108**	**- 412**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.
1 Preliminary results.
2 Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE 2.16

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED FINANCING TRANSACTIONS
(millions of dollars)

	2001-2002	2002-2003	2003-2004	2004-2005 [1]
Change in cash position				
Consolidated Revenue Fund	323	- 2 978	2 284	- 813
Consolidated organizations	- 87	- 112	32	—
Total change in cash position	**236**	**- 3 090**	**2 316**	**- 813**
Change in direct debt				
Consolidated Revenue Fund				
New borrowings	7 700	8 862	5 030	10 214
Repayment of borrowings	- 4 890	- 3 884	- 4 798	- 5 819
	2 810	4 978	232	4 395
Consolidated organizations				
New borrowings	1 311	2 568	2 516	2 198
Repayment of borrowings	- 602	- 1 178	- 1 234	- 1 234
	709	1 390	1 282	964
Total change in direct debt	**3 519**	**6 368**	**1 514**	**5 359**
Retirement plans sinking fund[2]	**- 3 140**	**- 1 641**	**- 2 364**	**- 4 134**
Total financing of consolidated transactions	**615**	**637**	**1 466**	**412**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Preliminary results.

2 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

TABLE 2.17

GOUVERNEMENT DU QUÉBEC
BORROWINGS FOR THE CONSOLIDATED REVENUE FUND IN 2004-2005

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
392	—	5.75	April 13	2036-12-01	101.011	5.681
499	—	5.75	May 4	2036-12-01	99.790	5.764
1 022	US$750[4]	4.875	May 5	2014-05-05	99.243	4.972
147	—	5.75	July 12	2036-12-01	97.979	5.890
49[5]	—	5.125[6]	July 26	2014-06-03	98.650	5.238
123[5]	—	5.125[6]	July 26	2014-06-03	98.512	5.256
503	—	5.50	August 3	2014-12-01	100.736	5.405
411	—	5.50	August 20	2014-12-01	102.694	5.158
248	—	5.50	October 26	2014-12-01	104.583	4.918
89[5]	—	Variable[7]	December 6	2014-06-30	100.000	Variable
534	—	5.50	December 20	2014-12-01	106.763	4.643
447	—	5.50	January 31	2014-12-01	106.729	4.639
397[5]	—	4.375[6]	February 4	2013-02-04	99.274	4.436
2 381[5]	€1 500	3.625[6]	February 10	2015-02-10	99.284	3.678
1 400[8]	—	Various	Various	Various	Various	Various
551[9]	—	Various	Various	Various	Various	Various
743[10]	—	Various	Various	Various	Various	Various
5[11]	—	Various	Various	Various	Various	Various
585[12]	—	Various	Various	Various	Various	Various
– 312[13]	Various	Various	Various	Various	Various	Various
10 214						

Note: The Québec government has credit agreements with various banks and financial institutions for a total of US$3 500 million. None of these credit agreements is being drawn upon.

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 The original borrowing totalled US$1 000 million, or CAN$1 362 million. An amount of US$250 million, or CAN$340 million, derived from this borrowing was advanced to the Financing Fund in order to be loaned to consolidated organizations.
5 Medium-term notes on the European market.
6 Interest payable annually.
7 Interest payable quarterly.
8 Medium-term notes on the Canadian market.
9 Real return bonds. The principal and the interest rate of these bonds are adjusted according to the change in the Consumer Price Index in Canada.
10 Savings products issued by Épargne Placements Québec.
11 Borrowings from the Canada Pension Plan Investment Fund.
12 Immigrant Investor Program.
13 Amount received (disbursed) under interest rate and currency swap agreements.

TABLE 2.18

GOUVERNEMENT DU QUÉBEC
BORROWINGS FOR THE FINANCING FUND IN 2004-2005

	Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
	(millions)		%			$	%
A. Borrowings for consolidated organizations							
	198[4]	—	4.50[5]	April 28	2011-04-28	99.235	4.578
	340	US$250[6]	4.875	May 5	2014-05-05	99.243	4.972
	250[4]	—	Variable[7]	May 10	2014-05-10	100.000	Variable
	343	—	5.75	July 12	2036-12-01	97.979	5.890
	74[4]	—	5.125[5]	July 26	2014-06-03	98.512	5.256
	103	—	5.50	August 20	2014-12-01	102.694	5.158
	128[8]	—	Variable[7]	September 22	2011-08-06	99.989	Variable
	150[8]	—	Variable	October 7	2011-08-06	100.057	Variable
	275	—	5.50	October 26	2014-12-01	104.583	4.918
	161[4]	—	Variable[7]	December 6	2014-06-30	100.000	Variable
	89[8]	—	5.35	January 13	2025-06-01	100.786	5.286
	87	—	5.50	January 31	2014-12-01	106.729	4.639
Sub-total	**2 198**						
B. Borrowings for certain government enterprises							
	113	—	5.75	April 13	2036-12-01	101.011	5.681
Sub-total	**113**						
Total	**2 311**						

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Medium-term notes on the European market.
5 Interest payable annually.
6 Amount derived from a borrowing of US$1 000 million (CAN$1 362 million) contracted by the Consolidated Revenue Fund.
7 Interest payable quarterly.
8 Medium-term notes on the Canadian market.

TABLE 2.19

GOUVERNEMENT DU QUÉBEC
BORROWINGS BY FINANCEMENT-QUÉBEC IN 2004-2005

Amount in Canadian dollars	Face value in foreign currency	Interest rate [1]	Date of issue	Date of maturity	Price to investor	Yield to investor [2]
(millions)		%			$	%
506	—	4.75	May 14	2009-12-01	101.257	4.491
501	—	5.25	June 15	2011-12-01	100.230	5.212
513	—	5.25	August 31	2011-12-01	102.524	4.832
199 [3]	—	5.00 [4]	September 2	2012-11-01	99.580	5.004
200 [5]	—	Variable [6]	March 10	2015-03-10	100.000	Variable
1 919						

1 Interest payable semi-annually except if another frequency is indicated in a note.
2 Yield to investor is determined on the basis of interest payable semi-annually.
3 Medium-term notes on the Canadian market.
4 Interest payable annually.
5 Medium-term notes on the European market.
6 Interest payable quarterly.

TABLE 2.20

GOUVERNEMENT DU QUÉBEC
BORROWINGS BY HYDRO-QUÉBEC IN 2004[1]

Amount in Canadian dollars[2]	Face value in foreign currency	Interest rate	Date of issue	Date of maturity	Price to investor	Yield to investor
(millions)		%			$	%
1 916[3]	Various	Various	Various	Various	Various	Various
– 363[4]	Various	Various	Various	Various	Various	Various
1 553						

Note: Hydro-Québec has credit agreements with various banks and financial institutions for a total of US$1 500 million. None of the credit agreements was being drawn upon as at December 31, 2004.

1 Borrowings contracted as at December 31, 2004.
2 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
3 Medium-term notes on the Canadian market.
4 Amount received (disbursed) under interest rate and currency swap agreements.

Section 2

Appendix 2.1

Additional data on the results for fiscal 2003-2004

Table 2.1.1: Reconciliation of the preliminary results presented in the 2004-2005 Budget Speech with the actual results presented in the 2005-2006 Budget Speech

Table 2.1.2: Comparison of the actual results presented in the 2005-2006 Budget Speech with those presented in the Consolidated Statement of Operations in the government's financial statements

TABLE 2.1.1

ADDITIONAL DATA ON THE RESULTS FOR FISCAL 2003-2004
RECONCILIATION OF THE PRELIMINARY RESULTS PRESENTED IN THE 2004-2005 BUDGET SPEECH WITH THE ACTUAL RESULTS PRESENTED IN THE 2005-2006 BUDGET SPEECH
(millions of dollars)

	Preliminary results in 2004-2005 Budget Speech	Revisions [1]	Restatement [2]	Actual results in 2005-2006 Budget Speech
Budgetary transactions of Consolidated Revenue Fund				
Own-source revenue before exceptional losses of SGF	42 824	- 126	- 457	42 241
Federal transfers	9 377	- 7		9 370
Total revenue	52 201	- 133	- 457	51 611
Program spending	- 45 800	41	457	- 45 302
Debt service	- 6 668	13		- 6 655
Total expenditure	- 52 468	54	457	- 51 957
Net results of consolidated organizations	267	79		346
Consolidated budget balance before exceptional losses of SGF	**0**			**0**
Exceptional losses of SGF	- 364	6		- 358
Consolidated budget balance	**- 364**	**6**		**- 358**

1 These results were presented in the Quarterly Presentation of Financial Transactions as at September 30, 2004.
2 The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing a decrease of $457 million in own-source revenue and program spending.

TABLE 2.1.2

ADDITIONAL DATA ON THE RESULTS FOR FISCAL 2003-2004
COMPARISON OF THE ACTUAL RESULTS PRESENTED IN THE 2005-2006 BUDGET SPEECH WITH THOSE PRESENTED IN THE CONSOLIDATED STATEMENT OF OPERATIONS IN THE GOVERNMENT'S FINANCIAL STATEMENTS
(millions of dollars)

	2005-2006 Budget speech					Government's financial statements
	Consolidated Revenue Fund	Consolidated organizations [1]	Specified purpose accounts [2]	Actual results	Restatements [3]	Actual results
Revenue by source						
Income and property taxes	24 219	462		24 681	589	25 270
Consumption taxes	11 641	52		11 693		11 693
Duties and permits	1 021	337		1 358		1 358
Miscellaneous	1 187	1 467	172	2 826		2 826
Revenue from government enterprises [4]	3 815			3 815		3 815
Own-source revenue	41 883	2 318	172	44 373	589 [3]	44 962
Federal transfers	9 370	564	186	10 120		10 120
Total revenue	51 253	2 882	358	54 493	589	55 082
Expenditure by mission [5]						
Health and Social Services	- 19 073	- 732	- 43	-19 848	- 11	-19 859
Education and Culture	- 12 219	- 56	- 96	-12 371	9	-12 362
Economy and Environment	- 5 511	- 566	- 98	-6 175	- 54	-6 229
Support for Individuals and Families	- 4 844	- 52	- 1	-4 897	- 524	-5 421
Administration and Justice	- 3 655	- 544	- 120	- 4 319	- 9	-4 328
Program spending	- 45 302	- 1 950	- 358	- 47 610	- 589 [3]	- 48 199
Debt service	- 6 655	- 586		- 7 241		-7 241
Total expenditure	- 51 957	- 2 536	- 358	- 54 851	- 589	- 55 440
Consolidated budget balance				- 358		- 358

1 Organizations and special funds under government control that have their own management and financial authority delegated to them by legislation. The results of these organizations are consolidated line by line with those of the Consolidated Revenue Fund.
2 The specified purpose accounts were created to administer funds received under contracts or agreements that provide for the allocation of these funds to specific purposes.
3 Data presented in the 2004-2005 Budget incorporated a downward restatement of $132 million in own-source revenue and program spending, corresponding to the implementation of changes to the family policy from January 1 to March 31, 2005, i.e. during the last three months of the 2004-2005 budget year. The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing a decrease of $457 million in own-source revenue and program spending.
4 Including the exceptional losses of $358 million registered by the SGF.
5 It should be noted that the Budget presents expenditures other than debt service by department, while the government's financial statements report such expenditures by mission.

Section 2

Appendix 2.2

Additional data on the results for fiscal 2004-2005

Table 2.2.1: Reconciliation of the results forecast in the 2004-2005 Budget Speech with the preliminary results presented in the 2005-2006 Budget Speech

Table 2.2.2: Operations presented according to the format used in the government's financial statements

TABLE 2.2.1

ADDITIONAL DATA ON THE RESULTS FOR FISCAL 2004-2005
RECONCILIATION OF THE RESULTS FORECAST IN THE 2004-2005 BUDGET SPEECH WITH THE PRELIMINARY RESULTS PRESENTED IN THE 2005-2006 BUDGET SPEECH
(millions of dollars)

	Results forecast in 2004-2005 Budget Speech	Revisions [1]	Restatement [2]	Preliminary results in 2005-2006 Budget Speech
Budgetary operations of Consolidated Revenue Fund				
Own-source revenue	45 358	- 788	- 409	44 161
Federal transfers	8 476	752		9 228
Total revenue	53 834	- 36	- 409	53 389
Program spending	- 47 151		409	- 46 742
Debt service	- 6 939	71		- 6 868
Total expenditure	- 54 090	71	409	- 53 610
Net results of consolidated organizations	256	-35		221
Consolidated budget balance	**0**			**0**

1 These revisions are presented in Table 2.1 on page 4.
2 The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing a decrease of $409 million in own-source revenue and program spending.

TABLE 2.2.2

ADDITIONAL DATA ON THE RESULTS FOR FISCAL 2004-2005
OPERATIONS PRESENTED ACCORDING TO THE FORMAT USED IN THE GOVERNMENT'S FINANCIAL STATEMENTS
(millions of dollars)

	Budget forecasts of March 30, 2004 [1]	Specified purpose accounts [2]	Revisions [3]	Preliminary results based on 2004-2005 Budget	Restatement [4]	Preliminary results based on 2005-2006 Budget [5]
Revenue by source						
Income and property taxes	26 846		- 543	26 303	- 409	25 894
Consumption taxes	12 049		342	12 391		12 391
Duties and permits	1 321		- 8	1 313		1 313
Miscellaneous	2 714	146	- 161	2 699		2 699
Revenue from government enterprises	4 823		- 530	4 293		4 293
Own-source revenue	47 753	146	- 900	46 999	- 409	46 590
Federal transfers	8 971	114	797	9 882		9 882
Total revenue	56 724	260	- 103	56 881	- 409	56 472
Expenditure by mission [6]						
Health and Social Services	- 20 768	- 45	38	- 20 775		- 20 775
Education and Culture	- 12 516	- 26	- 47	- 12 589		- 12 589
Economy and Environment	- 6 282	- 94	138	- 6 238		- 6 238
Support for Individuals and Families	- 5 325	- 1	- 58	- 5 384	409	- 4 975
Administration and Justice	- 4 435	- 94	116	- 4 413		- 4 413
Anticipated lapsed and deferred appropriations	195		- 195			
Program spending	- 49 131	- 260	- 8	- 49 399	409	- 48 990
Debt service	- 7 593		111	- 7 482		- 7 482
Total expenditure	- 56 724	- 260	103	- 56 881	409	- 56 472
Consolidated budget balance				**0**		**0**

1 Including transactions of the Consolidated Revenue Fund and consolidated organizations.
2 The revenue and expenditure of the specified purpose accounts were included in the consolidated financial statements as of fiscal 2003-2004.
3 These revisions include those of the Consolidated Revenue Fund and consolidated organizations.
4 The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing a decrease of $409 million in own-source revenue and program spending.
5 Revenue and expenditure totals correspond to those given in the summary of consolidated budgetary and non-budgetary transactions presented in Appendix 3.1.
6 It should be noted that the Budget presents expenditures other than debt service by department, while the government's financial statements report such expenditures by mission.

Section 3

The Government's Budgetary and Financial Stance

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Appendix

3.1 **Additional information on the government's budgetary and financial position** 25

Introduction

The budgetary and financial stance of the government is presented in this section of the Budget Plan.

The information provided includes:

— a summary of consolidated financial transactions from 2003-2004 to 2006-2007, including the impact for 2005-2006 and 2006-2007 of the fiscal and budgetary measures announced in the present Budget;

— brief explanations of the anticipated change in revenue and expenditure;

— a glimpse of the change in the main financial indicators.

Presentation of the government's financial framework

The government's financial framework is based on the maintenance of a balanced budget, as required by the *Balanced Budget Act*.

The results for 2004-2005 show that the zero-deficit target set at the beginning of the year was achieved.

The financial framework provides that a balanced budget will also be maintained in 2005-2006 and 2006-2007. In 2006-2007, however, the government must make up a budgetary shortfall of $773.

TABLE 3.1

SUMMARY OF CONSOLIDATED BUDGETARY AND FINANCIAL TRANSACTIONS[1,2]
(millions of dollars)

	2003-2004	2004-2005 P	2005-2006 P	2006-2007 P
Budgetary transactions of the Consolidated Revenue Fund[3]				
Own-source revenue before the exceptional losses of the SGF[4]	42 241	44 161	45 528	46 603
Federal transfers	9 370	9 228	9 607	9 856
Total revenue	**51 611**	**53 389**	**55 135**	**56 459**
Program spending	– 45 302	– 46 742	– 48 407	– 50 149
Debt service	– 6 655	– 6 868	– 6 995	– 7 309
Total spending	**– 51 957**	**– 53 610**	**– 55 402**	**– 57 458**
Net results of consolidated organizations	**346**	**221**	**267**	**226**
Consolidated budgetary balance before the exceptional losses of the SGF	**0**	**0**	**0**	**– 773**
Exceptional losses of the SGF	– 358	—	—	—
Shortfall to be absorbed	—	—	—	773
Consolidated budgetary balance	**– 358**	**0**	**0**	**0**
Consolidated non-budgetary requirements	**– 1 108**	**– 412**	**– 434**	**– 301**
Consolidated net financial requirements				
Consolidated Revenue Fund	– 152	552	500	500
Consolidated organizations	– 1 314	– 964	– 934	– 801
Total	**– 1 466**	**– 412**	**– 434**	**– 301**

P: Preliminary results for 2004-2005 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.
2 Data presented in the 2004-2005 Budget incorporated a downward restatement of $132 million in own-source revenue and program spending, corresponding to the implementation of changes to the family policy from January 1 to March 31, 2005, i.e. during the last three months of the 2004-2005 budget year. The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing an additional decrease in own-source revenue and program spending of $457 million in 2003-2004 and $409 million in 2004-2005.
3 Revenue and expenditure of the Consolidated Revenue Fund do not include the transactions of consolidated organizations grouped under the heading "net results of consolidated organizations" or those of the specified purpose accounts presented in Appendix 3.1.
4 Own-source revenue of the Consolidated Revenue Fund includes revenue from government enterprises, except for the exceptional losses registered by the Société générale de financement du Québec (SGF) in 2003-2004.

The financial objectives set for 2005-2006 and 2006-2007 are based on annual program spending growth of 3.6%. The program spending objective must be increased, notably to meet the government's goals regarding wage equity and renewal of the collective agreements of government employees.

Consolidated net financial requirements will total $434 million in 2005-2006 and $301 million in 2006-2007.

The net financial surpluses of the Consolidated Revenue Fund will be $500 million in 2005-2006 and 2006-2007.

The net financial requirements of consolidated organizations will stand at $934 million in 2005-2006 and $801 million in 2006-2007.

Revenue

Budgetary revenue

The government's budgetary revenue should total $55 135 million in 2005-2006, that is, $45 528 million in own-source revenue and $9 607 million in federal transfers. After increasing by 3.4% in 2004-2005, budgetary revenue should rise by 3.3% in 2005-2006 and 2.4% in 2006-2007.

TABLE 3.2

CONSOLIDATED REVENUE FUND
CHANGE IN REVENUE
(millions of dollars)

	2003-2004	2004-2005[P]	2005-2006[P]	2006-2007[P]
Own-source revenue	42 241[1]	44 161	45 528	46 603
% change	3.7	4.5	3.1	2.4
Federal transfers	9 370	9 228	9 607	9 856
% change	4.9	– 1.5	4.1	2.6
Total revenue	**51 611**	**53 389**	**55 135**	**56 459**
% change	3.9	3.4	3.3	2.4
Nominal GDP growth rate in %	4.1	5.3	4.6	3.8
Inflation rate in Canada in %	2.8	1.9	2.2	1.7

P: Preliminary results for 2004-2005 and forecasts for subsequent years.
1 Before the exceptional losses of $358 million registered by the Société générale de financement du Québec.

Own-source revenue

In 2004-2005, own-source revenue should be up 4.5% from the previous year. The increase is slightly less than the increase in the gross domestic product (GDP) primarily due to the personal income tax reduction announced in last year's budget.

In 2005-2006, the full impact of the fiscal measures announced in previous budgets as well as of those announced in the present Budget will moderate own-source revenue growth to 3.1%. The slower growth will be particularly marked in personal income tax. In 2006-2007, weaker growth in consumption taxes and the additional impact of fiscal measures, particularly on corporate taxes, will limit growth in own-source revenue to 2.4%.

TABLE 3.3

CONSOLIDATED REVENUE FUND
CHANGE IN OWN-SOURCE REVENUE BY SOURCE
(millions of dollars)

	2003-2004	2004-2005[P]	2005-2006[P]	2006-2007[P]
Personal income tax	15 678	16 385	16 691	17 323
% change	0.7	4.5	1.9	3.8
Health Services Fund	4 649	4 844	5 031	5 216
% change	14.3	4.2	3.9	3.7
Corporate taxes	3 892	4 177	4 302	4 304
% change	4.2	7.3	3.0	0.0
Consumption taxes	11 641	12 221	12 761	12 983
% change	6.0	5.0	4.4	1.7
Other revenue	2 208	2 241	2 290	2 289
% change	– 2.6	1.5	2.2	0.0
Sub-total	**38 068**	**39 868**	**41 075**	**42 115**
% change	**4.0**	**4.7**	**3.0**	**2.5**
Government enterprises	4 173[1]	4 293	4 453	4 488
% change	1.7	2.9	3.7	0.8
Own-source revenue	**42 241[1]**	**44 161**	**45 528**	**46 603**
% change	**3.7**	**4.5**	**3.1**	**2.4**
Nominal GDP growth rate in %[2]	4.1	5.3	4.6	3.8

P Preliminary results for 2004-2005 and forecasts for subsequent years.
1 Before the exceptional losses of $358 million of the Société générale de financement du Québec.
2 For the calendar year ending three months before the end of the fiscal year.

More specifically, in regard to the change in revenue by source:

- personal income tax, the main source of government revenue, should increase by 1.9% in 2005-2006 to $16 691 million. This is weaker than the growth in salaries and wages and other income subject to tax and is attributable to the impact of fiscal measures announced in this Budget as well as the previous one. After exceeding $300 million in 2004-2005, the impact of these measures will be $1.2 billion this year. Considering the growth in income subject to tax and the impact of the fiscal measures announced in the present Budget, personal income tax is expected to grow at a rate of 3.8% in 2006-2007;

- contributions to the Health Services Fund should climb by 3.9% to $5.0 billion in 2005-2006. This increase is comparable to the growth in salaries and wages on a fiscal year basis. This will also be the case in 2006-2007, when the growth rate is expected to be 3.7%;

- despite an average increase of over 6% in corporate profits both this year and next, corporate taxes will grow by only 3.0% in 2005-2006, whereas revenue will remain stable in 2006-2007. This situation is mainly attributable to the reform of corporate taxation and the economic growth measures announced in the present Budget;

- in 2005-2006, revenue from consumption taxes should climb by 4.4%, in pace with growth in household consumption, considering the stagnation in revenue from the tobacco tax. In 2006-2007, growth in revenue from consumption taxes will slow to 1.7% owing to more moderate growth in consumption in 2006 and lower residential investment with the anticipated decline in housing starts. The residential sector's return to more normal levels of activity reduces Québec sales tax growth by just over 1%;

- revenue from government enterprises is expected to increase by 3.7% in 2005-2006. This is a faster pace of growth than in 2004-2005 and is primarily attributable to the increase in earnings of the Société des alcools du Québec, which were affected by last year's employee strike.

TABLE 3.4

CONSOLIDATED REVENUE FUND
CHANGE IN REVENUE FROM GOVERNMENT ENTERPRISES
(millions of dollars)

	2003-2004	2004-2005[P]	2005-2006[P]
Hydro-Québec	2 049	2 115[1]	2 125
Loto-Québec	1 393	1 494	1 536
Société des alcools du Québec	571	547	682
Other	160	137	110
Sub-total	**4 173**[2]	**4 293**	**4 453**
% change	1.7	2.9	3.7

P Preliminary results for 2004-2005 and forecasts for subsequent years.
1 Including the exceptional gain of $265 million realized by Hydro-Québec on the sale of its interest in Noverco inc., the preliminary results for 2004-2005 amount to $2 380 million. This exceptional gain of $265 million is entered under "Other."
2 Before the exceptional losses of $358 million registered by the Société générale de financement du Québec.

Link between changes in own-source revenue and economic growth

Overall, nominal growth in own-source revenue should be similar to nominal economic growth, as was the case in 2004-2005. After taking the financial impact of fiscal measures into account, the rate of own-source revenue growth in 2005-2006 is slightly higher than that of GDP growth. The lower elasticity in 2006-2007 is largely due to the lower growth in sales tax revenue. In this regard, the impact of the decline in housing starts on investment in residential construction reduces the government's sales tax revenue more than the GDP.

TABLE 3.5

CONSOLIDATE REVENUE FUND
CHANGE IN OWN-SOURCE REVENUE ON A COMPARABLE BASIS
(millions in dollars)

	2004-2005[P]	2005-2006[P]	2006-2007[P]
Own-source revenue, excluding government enterprises and consolidated organizations	**39 868**	**41 075**	**42 115**
% change	4.7	3.0	2.5
Less:			
2005-2006 Budget measures:			
Personal income tax reduction		– 81	– 337
Other fiscal measures		– 98	– 250
2004-2005 Budget measures:			
Personal income tax	– 338	– 1 161	– 1 197
Other fiscal measures	114	316	471
2003-2004 Budget measures	678	687	633
2002-2003 Budget measures	– 416	– 483	– 532
Other factors	200	283	284
Revenue on a comparable basis	**39 630**	**41 612**	**43 043**
% change	5.1	5.0	3.4
Gross domestic product in %	5.3	4.6	3.8
Elasticity[1]	0.96	1.08	0.92

P Preliminary results for 2004-2005 and forecasts for subsequent years.
1 Elasticity between growth in revenue on a comparable basis and growth in gross domestic product. An elasticity rate of 1.00 means that 1% growth in GDP results in 1% growth in own-source revenue.

Federal transfers

After sliding 1.5% in 2004-2005, federal transfer revenue is expected to climb by 4.1% in 2005-2006 and 2.6% in 2006-2007. The main reason for the increase is the impact of the first ministers' meetings on federal health funding and equalization held in fall 2004.

The 38.3% growth in other programs in 2005-2006 essentially stems from the federal government's announcement of a contribution to provincial child-care services. Québec will receive $165 million of this transfer in 2005-2006.

TABLE 3.6

CONSOLIDATED REVENUE FUND
CHANGE IN FEDERAL TRANSFER REVENUE
(millions of dollars)

	2004-2005[P]	2005-2006[P]	2006-2007[P]
Equalization	5 221	4 667	4 611
% change	28.4	– 10.6	– 1.2
Transfers for health services	2 417	3 060	3 412
% change	n.a.	26.6	11.5
Transfers for post-secondary education and other social programs	926	962	1 007
% change	n.a.	3.9	4.7
Other programs	664	918	826
% change	n.a.	38.3	– 10.0
Total federal transfers	**9 228**	**9 607**	**9 856**
% change	– 1.5	4.1	2.6

P Preliminary results for 2004-2005 and forecasts for subsequent years.

The 2005-2006 Budget adopts a new way of presenting the Québec government's federal transfer revenue. Changes were made to the list of programs to reflect the federal government's restructuring of major transfer programs starting in 2004-2005.

The federal government divided the Canada Health and Social Transfer (CHST) into two different programs in 2004-2005. The revenue from these new programs is entered as "Transfers for health care" and "Transfers for post-secondary education and other social programs." The total of these two new items corresponds to the old item "CHST." Revisions regarding the CHST for the years prior to 2004-2005 will also be recorded during the coming years and will be divided between the two new items according to the CHST breakdown used by the federal government, that is, 62% for health and 38% for post-secondary education and other social programs.

In addition, henceforth, "Other transfers related to fiscal arrangements," which generated $33 million in revenue from tax on preferred shares in 2004-2005, will be combined with "Other programs."

DIAGRAM 3.1

NEW PRESENTATION OF THE QUÉBEC GOVERNMENT'S FEDERAL TRANSFER REVENUE AS OF 2004-2005
(millions of dollars)

Former presentation		New presentation	
Equalization	5 221	Equalization	5 221
CHST	3 343	Transfers for health care	2 417
		Transfers for post-secondary education and other social programs	926
Other transfers related to fiscal arrangements	33	Other programs	664
Other programs	631		
Total federal transfers	**9 228**	**Total federal transfers**	**9 228**

First ministers' meetings in fall 2004

Two important meetings of the federal and provincial first ministers held in fall 2004 resulted in upward revisions in federal transfers to the Québec government.

The September 2004 Health Accord provides for a 6% annual increase in federal health transfers, the creation of a trust fund to reduce wait times and a fund for the acquisition of medical equipment. The impact of the Accord for Québec is $502 million in 2004-2005 and over $700 million per year thereafter.

TABLE 3.7

IMPACT OF THE SEPTEMBER 2004 HEALTH ACCORD
(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Canada						
Increase in the base	1 000	2 500	2 240	2 098	2 429	2 787
Wait Time Reduction Fund	625	625	1 200	1 200	600	250
Medical Equipment Fund	500					
Total	**2 125**	**3 125**	**3 440**	**3 298**	**3 029**	**3 037**
Québec						
Increase in the base	236	589	525	490	564	644
Wait Time Reduction Fund	148	147	282	281	141	58
Medical Equipment Fund	118					
Total	**502**	**736**	**807**	**771**	**705**	**702**

In September 2004, the federal government also announced a reform of the national equalization program. For the past 40 years or so, the total amount of equalization paid out by the federal government and its distribution among the provinces have been calculated according to a single formula. Henceforth, these two components will no longer be linked during calculation of the province's equalization entitlements. As part of the program reform, the federal government:

— fixed equalization funding at $10 billion in 2004-2005 and $10.9 billion in 2005-2006;

— provided for an annual increase of 3.5% in equalization entitlements as of 2006-2007;

— mandated a panel of experts to recommend, by December 2005, a new allocation formula for distributing equalization funding among the provinces as of 2006-2007.

It is unknown how the new equalization framework will impact Québec as of 2006-2007. However, for the purposes of government financial planning, it was assumed that Québec's share of federal equalization payments as of 2006-2007 would be the same as in 2005-2006.

TABLE 3.8

IMPACT OF NEW FEDERAL EQUALIZATION FRAMEWORK
(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Canada	1 148	1 694	1 707	1 719	1 729	1 738
Québec	279	334	To be determined			

Note: Impact calculated in relation to ministère des Finances du Québec's forecasts for growth in federal equalization payments. The impact of the new equalization framework for Québec will not be known until the federal government announces the new allocation formula after the panel of experts has tabled its report in December 2005. However, for the purposes of the Québec government's financial planning, it was assumed that Québec's share of federal equalization payments as of 2006-2007 would be the same as in 2005-2006.

Expenditure

Government expenditure should total $55 402 million in 2005-2006. Program spending will be $48 407 million, while debt service will stand at $6 995 million.

Program spending

The program spending objective set in the last budget for 2004-2005 was achieved. The spending objective for 2005-2006 was increased by $439 million from the amount provided for in the last budget.

Program spending will therefore grow by $1 665 million in 2005-2006, a 3.6% increase. There will be another 3.6% increase in 2006-2007.

TABLE 3.9

CONSOLIDATED REVENUE FUND
CHANGE IN EXPENDITURE
(millions of dollars)

	2003-2004	2004-2005[P]	2005-2006[P]	2006-2007[P]
Program spending objectives set in the 2004-2005 Budget	– 45 800	– 47 151	– 48 377	– 49 635
% change	3.3	2.9	2.6	2.6
Change in expenditure as presented in the 2003-2004 Public Accounts	41			
Restatement to reflect the 2005-2006 budgetary structure[1]	457	409	409	409
Increase in spending objective			– 439	– 923
Program spending	**– 45 302**	**– 46 742**	**– 48 407**	**– 50 149**
% change	3.3	3.2	3.6	3.6
Debt service	**– 6 655**	**– 6 868**	**– 6 995**	**– 7 309**
% change	1.1	3.2	1.8	4.5
Total spending	**– 51 957**	**– 53 610**	**– 55 402**	**– 57 458**
% change	3.1	3.2	3.3	3.7
Nominal GDP growth rate in %[2]	4.1	5.3	4.6	3.8
Inflation rate in Canada in %	2.8	1.9	2.2	1.7

P: Preliminary results for 2004-2005 and forecasts for subsequent years.
1 Data presented in the 2004-2005 Budget incorporated a downward restatement of $132 million in own-source revenue and program spending, corresponding to the implementation of changes to the family policy from January 1 to March 31, 2005, i.e. during the last three months of the 2004-2005 budget year. The family policy changes included in the 2005-2006 Budget apply throughout 2005-2006 and, therefore, an adjustment corresponding to an additional nine-month period must be incorporated, representing an additional decrease in own-source revenue and program spending of $457 million in 2003-2004 and $409 million in 2004-2005.
2 For the calendar year ending three months before the end of the fiscal year.

Debt service

Debt service has two components, namely, direct debt service of the Consolidated Revenue Fund and the interest ascribed to the retirement plans.

TABLE 3.10

CONSOLIDATED REVENUE FUND
DEBT SERVICE
(millions of dollars)

	2003-2004	2004-2005[P]	2005-2006[P]	2006-2007[P]
Direct debt service	– 3 913	– 4 080	– 4 319	– 4 603
% change	– 0.6	4.3	5.9	6.6
Interest ascribed to the retirement plans[1]	– 2 742	– 2 788	– 2 676	– 2 706
% change	3.5	1.7	– 4.0	1.1
Debt service	– 6 655	– 6 868	– 6 995	– 7 309
% change	1.1	3.2	1.8	4.5

P Preliminary results for 2004-2005 and forecasts for subsequent years.
1 Interest ascribed to the retirement plans corresponds to the interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

Growth in debt service is expected to be 1.8% in 2005-2006, primarily as a result of the rise in short-term interest rates. The anticipated foreign exchange gains from the Canadian dollar's appreciation against foreign currencies are mostly offset by the increase in the debt.

The 4.5% growth rate predicted in 2006-2007 reflects the rise in short-term interest rates, the increase in the debt and, to a lesser extent, the dollar's depreciation versus certain currencies.

Consolidated organizations

Consolidated organizations are expected to record net results of $267 million in 2005-2006 and $226 million in 2006-2007. These changes are negligible compared with the net results recorded in 2004-2005.

TABLE 3.11

CONSOLIDATED ORGANIZATIONS
CHANGE IN BUDGETARY TRANSACTIONS
(millions of dollars)

	2003-2004	2004-2005[P]	2005-2006[P]	2006-2007[P]
Revenue				
Own-source revenue	2 318	2 283	2 445	2 411
Federal transfers	564	540	619	605
	2 882	**2 823**	**3 064**	**3 016**
Expenditure				
Expenditure excluding debt service	- 1 950	- 1 988	- 2 119	- 2 087
Debt service	- 586	- 614	- 678	- 703
	- 2 536	**- 2 602**	**- 2 797**	**- 2 790**
Net results	**346**	**221**	**267**	**226**

P: Preliminary results for 2004-2005 and forecasts for subsequent years.

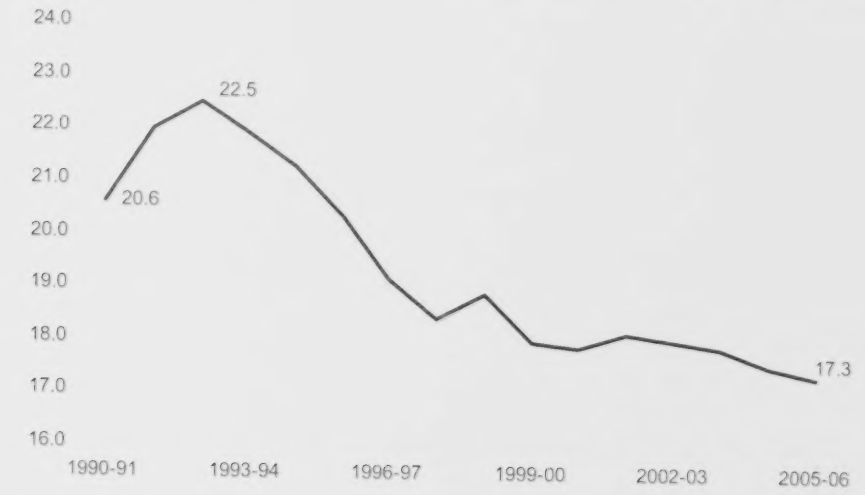
Main financial indicators

Continued decline in program spending/GDP ratio

The ratio of program spending to gross domestic product (GDP) has fallen steadily since 1992-1993, decreasing from a peak of 22.5% to 17.3% in 2005-2006, the lowest level in 35 years.

CHART 3.1

PROGRAM SPENDING
(as a percentage of GDP)

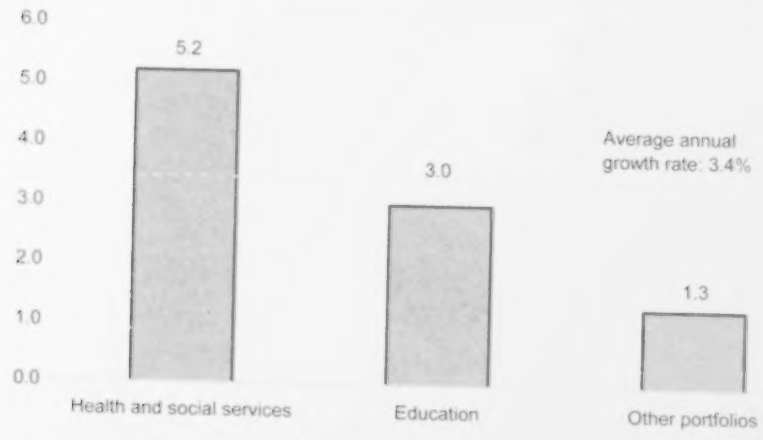


Priority given to the health and education sectors

Delivering on its promises, the government has made health and social services and education its priority spending areas. From 2003-2004 to 2005-2006, health spending grew by 5.2% per year on average. The average annual growth in spending on education was 3.0%.

CHART 3.2

PROGRAM SPENDING – AVERAGE ANNUAL GROWTH RATE 2003-2004 TO 2005-2006
(percent)



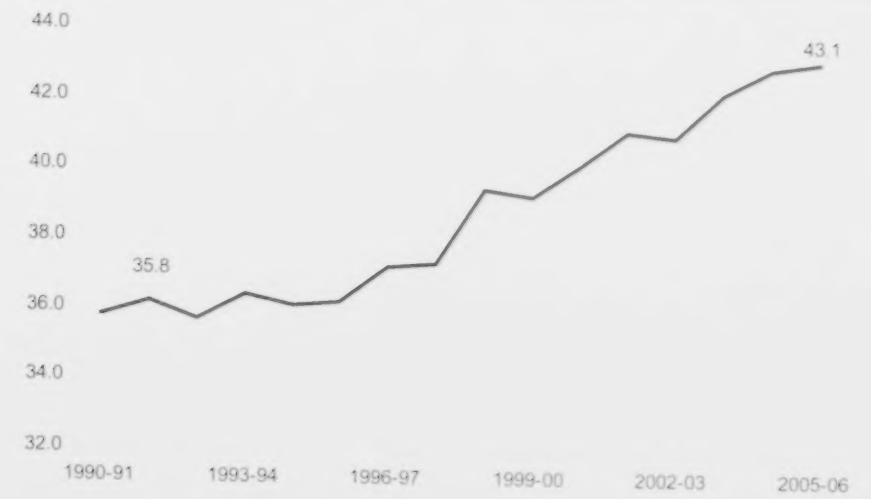
An increasing share of spending is devoted to health and social services

The growth in health and social services spending has relatively outstripped total program spending in the last ten years. The relative weight of the health and social services sector in total program spending has risen from 35.8% in 1990-1991 to 43.1% in 2005-2006.

The increased weight of health spending reflects the priority given to this sector by the government, in order to deal with the aging population and the additional costs arising from new technologies and higher drug costs.

CHART 3.3

CHANGE IN WEIGHT OF HEALTH AND SOCIAL SERVICES SPENDING IN TOTAL PROGRAM SPENDING
(percent)

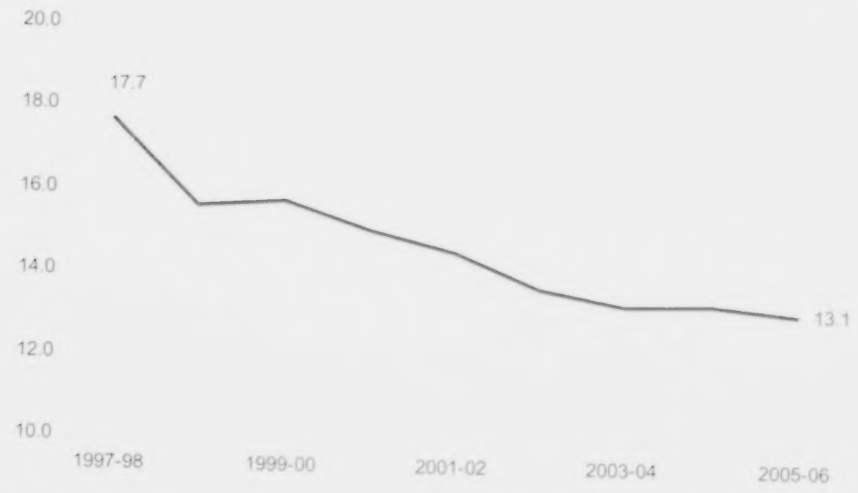


A shrinking proportion of revenue is being devoted to interest payments on the debt

The share of budgetary revenue devoted to total debt service, which also includes interest ascribed to the retirement plans and the debt service of consolidated organizations, should stand at 13.1% in 2005-2006 compared with 17.7% in 1997-1998.

CHART 3.4

TOTAL DEBT SERVICE
(as a percentage of budgetary revenue)



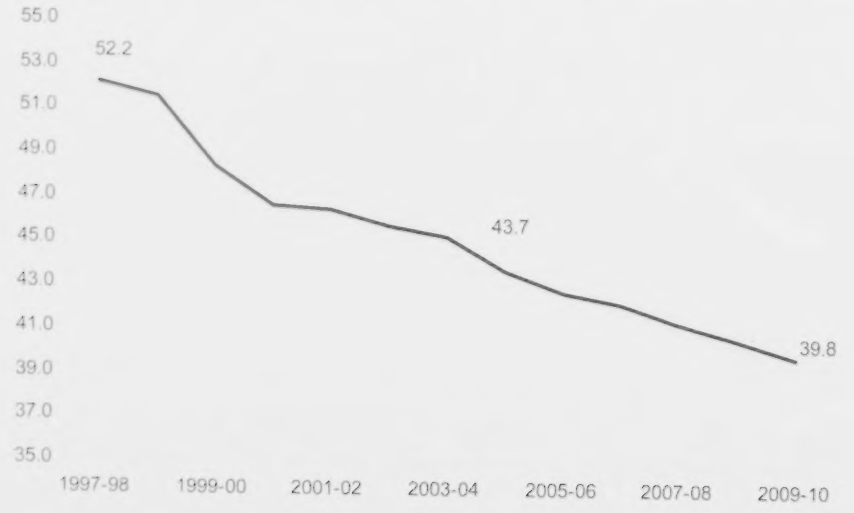
Reducing the weight of the debt on the economy

The weight of the total debt dropped from 52.2% in 1997-1998 to 43.7% in 2004-2005.

By maintaining a balanced budget through tight spending control, the debt/GDP ratio will fall to below 40% by the end of the decade.

CHART 3.5

TOTAL DEBT
(as a percentage of GDP)



Section 3

Appendix 3.1

Additional information on the government's budgetary and financial position

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Summary of consolidated budgetary and non-budgetary transactions 30

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TABLE 3.1.1

BUDGETARY TRANSACTIONS
CONSOLIDATED REVENUE FUND[1,2]
(millions of dollars)

	Own-source revenue [3]	Federal transfers	Total revenue	Program spending	Debt service	Total spending
Before reform of government accounting						
1970-1971	2 672	1 094	3 766	– 3 714	– 197	– 3 911
1971-1972	3 110	1 293	4 403	– 4 548	– 210	– 4 758
1972-1973	3 672	1 261	4 933	– 5 038	– 242	– 5 280
1973-1974	4 279	1 376	5 655	– 6 026	– 288	– 6 314
1974-1975	5 271	1 871	7 142	– 7 288	– 296	– 7 584
1975-1976	6 006	2 222	8 228	– 8 811	– 368	– 9 179
1976-1977	7 020	2 520	9 540	– 10 260	– 456	– 10 716
1977-1978	7 867	3 088	10 955	– 11 053	– 606	– 11 659
1978-1979	8 382	3 268	11 650	– 12 331	– 817	– 13 148
1979-1980	9 295	3 754	13 049	– 14 479	– 970	– 15 449
1980-1981	10 578	3 894	14 472	– 16 571	– 1 382	– 17 953
1981-1982	13 269	4 473	17 742	– 18 413	– 1 950	– 20 363
1982-1983	14 385	5 172	19 557	– 19 720	– 2 300	– 22 020
1983-1984	15 414	6 227	21 641	– 21 294	– 2 511	– 23 805
1984-1985	15 829	6 236	22 065	– 22 926	– 3 012	– 25 938
1985-1986	17 788	6 178	23 966	– 24 085	– 3 354	– 27 439
1986-1987	19 519	5 828	25 347	– 24 763	– 3 556	– 28 319
1987-1988	21 986	6 117	28 103	– 26 824	– 3 675	– 30 499
1988-1989	23 360	6 386	29 746	– 27 648	– 3 802	– 31 450
1989-1990	24 353	6 674	31 027	– 28 776	– 4 015	– 32 791
1990-1991	26 066	6 972	33 038	– 31 576	– 4 437	– 36 013
1991-1992	27 713	6 747	34 460	– 34 095	– 4 666	– 38 761
1992-1993	27 556	7 764	35 320	– 35 594	– 4 756	– 40 350
1993-1994	28 161	7 762	35 923	– 35 530	– 5 316	– 40 846
1994-1995	28 810	7 494	36 304	– 36 243	– 5 882	– 42 125
1995-1996	29 996	8 126	38 122	– 36 035	– 6 034	– 42 069
1996-1997	30 518	6 704	37 222	– 34 579	– 5 855	– 40 434
After reform of government accounting						
1997-1998	33 598	5 656	39 254	– 34 684	– 6 765	– 41 449
1998-1999	35 971	7 813	43 784	– 37 041	– 6 573	– 43 614
1999-2000	38 333	6 064	44 397	– 37 837	– 6 752	– 44 589
2000-2001	40 321	7 895	48 216	– 40 151	– 6 972	– 47 123
2001-2002	38 415 [4]	8 885	47 300 [4]	– 41 863	– 6 687	– 48 550
2002-2003	40 381 [4]	8 932	49 313 [4]	– 43 837	– 6 583	– 50 420
2003-2004	41 883 [4]	9 370	51 253 [4]	– 45 302	– 6 655	– 51 957
2004-2005[P]	44 161	9 228	53 389	– 46 742	– 6 868	– 53 610
2005-2006[P]	45 528	9 607	55 135	– 48 407	– 6 995	– 55 402

P Preliminary results for 2004-2005 and forecasts for 2005-2006.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.
2 Data for the Consolidated Revenue Fund exclude the revenue and expenditure of specified purpose accounts and consolidated organizations presented in tables 3.1.2 and 3.1.3.
3 Own-source revenue of the Consolidated Revenue Fund includes revenue from government enterprises.
4 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

TABLE 3.1.2

BUDGETARY TRANSACTIONS
SPECIFIED PURPOSE ACCOUNTS[1]
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	92	487	579	– 579	0	– 579	0
1998-1999	80	221	301	– 301	0	– 301	0
1999-2000	102	196	298	– 298	0	– 298	0
2000-2001	123	174	297	– 297	0	– 297	0
2001-2002	155	171	326	– 326	0	– 326	0
2002-2003	199	150	349	– 349	0	– 349	0
2003-2004	172	186	358	– 358	0	– 358	0
2004-2005[P]	146	114	260	– 260	0	– 260	0
2005-2006[P]	233	182	415	– 415	0	– 415	0

P Preliminary results for 2004-2005 and forecasts for 2005-2006.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE 3.1.3

BUDGETARY TRANSACTIONS
CONSOLIDATED ORGANIZATIONS[1]
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	1 391	318	1 709	– 1 094	– 577	– 1 671	38
1998-1999	1 680	258	1 938	– 1 368	– 614	– 1 982	– 44
1999-2000	1 850	270	2 120	– 1 300	– 621	– 1 921	199
2000-2001	1 851	250	2 101	– 1 183	– 634	– 1 817	284
2001-2002	1 940	420	2 360	– 1 464	– 574	– 2 038	322
2002-2003	2 160	375	2 535	– 1 607	– 549	– 2 156	379
2003-2004	2 318	564	2 882	– 1 950	– 586	– 2 536	346
2004-2005 [P]	2 283	540	2 823	– 1 988	– 614	– 2 602	221
2005-2006 [P]	2 445	619	3 064	– 2 119	– 678	– 2 797	267

P: Preliminary results for 2004-2005 and forecasts for 2005-2006.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE 3.1.4

SUMMARY OF CONSOLIDATED BUDGETARY AND NON-BUDGETARY TRANSACTIONS[1]

(millions of dollars)

	Budgetary transactions[2]							
	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Budgetary reserve	Surplus (deficit)
Before reform of government accounting								
1970-1971	2 672	1 094	3 766	– 3 714	– 197	– 3 911		– 145
1971-1972	3 110	1 293	4 403	– 4 548	– 210	– 4 758		– 355
1972-1973	3 672	1 261	4 933	– 5 038	– 242	– 5 280		– 347
1973-1974	4 279	1 376	5 655	– 6 026	– 288	– 6 314		– 659
1974-1975	5 271	1 871	7 142	– 7 288	– 296	– 7 584		– 442
1975-1976	6 006	2 222	8 228	– 8 811	– 368	– 9 179		– 951
1976-1977	7 020	2 520	9 540	– 10 260	– 456	– 10 716		– 1 176
1977-1978	7 867	3 088	10 955	– 11 053	– 606	– 11 659		– 704
1978-1979	8 382	3 268	11 650	– 12 331	– 817	– 13 148		– 1 498
1979-1980	9 295	3 754	13 049	– 14 479	– 970	– 15 449		– 2 400
1980-1981	10 578	3 894	14 472	– 16 571	– 1 382	– 17 953		– 3 481
1981-1982	13 269	4 473	17 742	– 18 413	– 1 950	– 20 363		– 2 621
1982-1983	14 385	5 172	19 557	– 19 720	– 2 300	– 22 020		– 2 463
1983-1984	15 414	6 227	21 641	– 21 294	– 2 511	– 23 805		– 2 164
1984-1985	15 829	6 236	22 065	– 22 926	– 3 012	– 25 938		– 3 873
1985-1986	17 788	6 178	23 966	– 24 085	– 3 354	– 27 439		– 3 473
1986-1987	19 519	5 828	25 347	– 24 763	– 3 556	– 28 319		– 2 972
1987-1988	21 986	6 117	28 103	– 26 824	– 3 675	– 30 499		– 2 396
1988-1989	23 360	6 386	29 746	– 27 648	– 3 802	– 31 450		– 1 704
1989-1990	24 353	6 674	31 027	– 28 776	– 4 015	– 32 791		– 1 764
1990-1991	26 066	6 972	33 038	– 31 576	– 4 437	– 36 013		– 2 975
1991-1992	27 713	6 747	34 460	– 34 095	– 4 666	– 38 761		– 4 301
1992-1993	27 556	7 764	35 320	– 35 594	– 4 756	– 40 350		– 5 030
1993-1994	28 161	7 762	35 923	– 35 530	– 5 316	– 40 846		– 4 923
1994-1995	28 810	7 494	36 304	– 36 243	– 5 882	– 42 125		– 5 821
1995-1996	29 996	8 126	38 122	– 36 035	– 6 034	– 42 069		– 3 947
1996-1997	30 518	6 704	37 222	– 34 579	– 5 855	– 40 434		– 3 212
After reform of government accounting								
1997-1998	35 081	6 461	41 542	– 36 357	– 7 342	– 43 699		– 2 157
1998-1999	37 731	8 292	46 023	– 38 710	– 7 187	– 45 897		126
1999-2000	40 285	6 530	46 815	– 39 435	– 7 373	– 46 808		7
2000-2001	42 295	8 319	50 614	– 41 631	– 7 606	– 49 237	– 950	427
2001-2002	40 510 [3]	9 476	49 986 [3]	– 43 653	– 7 261	– 50 914	950	22
2002-2003	42 740 [3]	9 457	52 197 [3]	– 45 793	– 7 132	– 52 925		– 728
2003-2004	44 373 [3]	10 120	54 493 [3]	– 47 610	– 7 241	– 54 851		– 358
2004-2005[P]	46 590	9 882	56 472	– 48 990	– 7 482	– 56 472		0
2005-2006[P]	48 206	10 408	58 614	– 50 941	– 7 673	– 58 614		0

P: Preliminary results for 2004-2005 and forecasts for 2005-2006.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

2 In addition to the Consolidated Revenue Fund, these data include the revenue and expenditure of specified purpose accounts and consolidated organizations presented in tables 3.1.2 and 3.1.3.

3 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

Non-budgetary transactions					
Investments, loans and advances	Capital expenditures	Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
– 73		2	26	– 45	– 190
– 63		1	113	51	– 304
– 53		– 1	18	– 36	– 383
– 122		25	459	362	– 297
– 146		104	319	277	– 165
– 186		109	622	545	– 406
– 183		187	– 161	– 157	– 1 333
– 229		265	– 488	– 452	– 1 156
– 189		316	119	246	– 1 252
– 188		683	551	1 046	– 1 354
– 56		822	416	1 182	– 2 299
– 586		1 007	71	492	– 2 129
– 761		1 051	– 40	250	– 2 213
– 672		1 057	– 436	– 51	– 2 215
– 167		1 183	887	1 903	– 1 970
40		1 269	493	1 802	– 1 671
– 380		1 355	260	1 235	– 1 737
– 680		2 203	– 493	1 030	– 1 366
– 670		1 634	– 265	699	– 1 005
– 516		1 164	300	948	– 816
– 458		1 874	77	1 493	– 1 482
– 411		1 916	141	1 646	– 2 655
– 490		1 525	82	1 117	– 3 913
– 623		1 668	52	1 097	– 3 826
– 1 142		1 509	578	945	– 4 876
– 287		1 701	– 415	999	– 2 948
– 792		1 928	– 60	1 076	– 2 136
– 1 315	– 209	1 888	109	473	– 1 684
– 1 402	– 217	1 020	996	397	523
– 2 006	– 359	1 740	1 328	703	710
– 1 632	– 473	1 793	– 631	– 943	– 516
– 1 142	– 995	2 089	– 589	– 637	– 615
– 1 651	– 1 482	2 007	217	– 909	– 1 637
– 1 125	– 1 019	2 219	– 1 183	– 1 108	– 1 466
– 1 075	– 919	2 174	– 592	– 412	– 412
– 1 517	– 1 242	2 016	309	– 434	– 434

TABLE 3.1.5

CONSOLIDATED DEBT AT FISCAL YEAR-END
(millions of dollars)

	Total debt									
			Retirement plans							
	Direct debt[1,2]		Liability of retirement plans		Retirement plans sinking fund		Net liability of retirement plans[3]		Total	
	$M	% of GDP	$M	% of GDP	$M	% of GDP	$M	% of GDP	$M	% of GDP
Before reform of government accounting										
1970-1971	2 478	10.9							2 478	10.9
1971-1972	2 920	11.9							2 920	11.9
1972-1973	3 309	12.0							3 309	12.0
1973-1974	3 679	11.8							3 679	11.8
1974-1975	4 030	11.0					67	0.2	4 097	11.1
1975-1976	4 955	12.0					179	0.4	5 134	12.4
1976-1977	6 035	12.5					354	0.7	6 389	13.2
1977-1978	7 111	13.4					620	1.2	7 731	14.6
1978-1979	8 325	14.1					915	1.6	9 240	15.7
1979-1980	9 472	14.4					1 598	2.4	11 070	16.8
1980-1981	12 247	16.8					2 420	3.3	14 667	20.1
1981-1982	14 184	17.6					3 428	4.3	17 612	21.9
1982-1983	16 485	19.3					4 489	5.3	20 974	24.6
1983-1984	18 880	20.6					5 545	6.0	24 425	26.6
1984-1985	21 216	21.2					6 729	6.7	27 945	27.9
1985-1986	23 633	22.0					7 998	7.4	31 631	29.5
1986-1987	25 606	21.9					9 353	8.0	34 959	29.8
1987-1988	26 819	20.9					10 883	8.5	37 702	29.4
1988-1989	27 091	19.2					12 597	8.9	39 688	28.2
1989-1990	27 699	18.7					14 320	9.6	42 019	28.3
1990-1991	29 637	19.3					16 227	10.6	45 864	29.9
1991-1992	33 106	21.3					18 143	11.7	51 249	33.0
1992-1993	39 231	24.8					19 668	12.4	58 899	37.2
1993-1994	45 160	27.8	21 337	13.2	854	0.5	20 483	12.6	65 643	40.5
1994-1995	52 468	30.8	22 846	13.4	849	0.5	21 997	12.9	74 465	43.7
1995-1996	52 886	29.8	24 547	13.8	923	0.5	23 624	13.3	76 510	43.1
1996-1997	52 625	29.2	26 475	14.7	1 014	0.6	25 461	14.1	78 086	43.3
After reform of government accounting										
1997-1998	57 947	30.7	41 617	22.1	1 179	0.6	40 438	21.5	98 385	52.2
1998-1999	60 685 [4]	30.9	42 637	21.7	2 209	1.1	40 428	20.6	101 113 [4]	51.5
1999-2000	62 783 [4]	29.7	44 377	21.1	5 040	2.4	39 337	18.7	102 120 [4]	48.4
2000-2001	65 737 [4]	29.2	46 170	20.5	7 059	3.1	39 111	17.4	104 848 [4]	46.6
2001-2002	69 115 [4]	29.9	48 259	20.9	10 199	4.4	38 060	16.5	107 175 [4]	46.4
2002-2003	72 916 [4]	29.9	50 266	20.6	11 840	4.8	38 426	15.8	111 342 [4]	45.7
2003-2004	76 444 [4]	30.1	52 485	20.7	14 204	5.6	38 281	15.1	114 725 [4]	45.2
2004-2005[P]	80 268 [4]	30.1	54 659	20.5	18 338	6.9	36 321	13.6	116 589 [4]	43.7
2005-2006[P]	82 226	29.4	56 675	20.3	19 493	7.0	37 182	13.3	119 408	42.7

P: Preliminary results for 2004-2005 and forecasts for 2005-2006.
1 Includes Treasury bills, temporary borrowings and long-term debt. Since 1976-1977, the debt in foreign currency has been expressed in the Canadian equivalent based on the exchange rate in effect on March 31 of the fiscal year under consideration.
2 Excluding deferred foreign exchange gains or losses.
3 Liability of the retirement plans less the balance of the retirement plans sinking fund.
4 Excluding pre-financing totalling $2 831 million in 1998-1999, $506 million in 1999-2000, $1 475 million in 2000-2001, $1 154 million in 2001-2002, $4 132 million in 2002-2003, $1 848 million in 2003-2004 and $2 661 million in 2004-2005.

Financial assets net of other liabilities[5]		Net debt		Capital expenditures		Debt representing accumulated deficits[6]	
$M	% of GDP	$M	% of GDP	$M	% of GDP	$M	% of GDP
188	0.8	2 290	10.1			2 290	10.1
275	1.1	2 645	10.8			2 645	10.8
317	1.2	2 992	10.9			2 992	10.9
28	0.1	3 651	11.7			3 651	11.7
4	0.0	4 093	11.1			4 093	11.1
90	0.2	5 044	12.2			5 044	12.2
36	0.1	6 353	13.2			6 353	13.2
673	1.3	7 058	13.3			7 058	13.3
780	1.3	8 460	14.4			8 460	14.4
234	0.4	10 836	16.5			10 836	16.5
341	0.5	14 326	19.6			14 326	19.6
5 043	6.3	12 569	15.6			12 569	15.6
5 936	7.0	15 038	17.6			15 038	17.6
7 127	7.8	17 298	18.8			17 298	18.8
6 490	6.5	21 455	21.4			21 455	21.4
5 896	5.5	25 735	24.0			25 735	24.0
6 243	5.3	28 716	24.5			28 716	24.5
6 587	5.1	31 115	24.2			31 115	24.2
6 869	4.9	32 819	23.3			32 819	23.3
7 436	5.0	34 583	23.3			34 583	23.3
8 306	5.4	37 558	24.5			37 558	24.5
9 364	6.0	41 885	27.0			41 885	27.0
11 985	7.6	46 914	29.6			46 914	29.6
13 806	8.5	51 837	32.0			51 837	32.0
16 788	9.8	57 677	33.8			57 677	33.8
14 886	8.4	61 624	34.8			61 624	34.8
13 253	7.3	64 833	35.9			64 833	35.9
9 788	5.2	88 597	47.0	6 016	3.2	82 581	43.8
15 134 [7]	7.7	88 810	45.3	6 233	3.2	82 577	42.1
13 464 [7]	6.4	89 162	42.3	6 693	3.2	82 469	39.1
17 165 [7,8]	7.6	89 158	39.6	7 166	3.2	81 992 [8]	36.5
15 557 [7]	6.7	92 772	40.2	8 234	3.6	84 538	36.6
19 873 [7]	8.1	95 601	39.2	9 716	4.0	85 885	35.2
19 548 [7]	7.6	97 025	38.3	10 735	4.2	86 290	34.0
21 306 [7]	8.0	97 944	36.7	11 654	4.4	86 290	32.3
20 222	7.2	99 186	35.5	12 896	4.6	86 290	30.9

5 Including deferred foreign exchange gains or losses.
6 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.
7 Takes into account pre-financing totalling $2 831 million in 1998-1999, $506 million in 1999-2000, $1 475 million in 2000-2001, $1 154 million in 2001-2002, $4 132 million in 2002-2003, $1 848 million in 2003-2004 and $2 661 million in 2004-2005.
8 Including $950 million placed in reserve.

TABLE 3.1.6

CONSOLIDATED DEBT SERVICE
(millions of dollars)

	Consolidated direct debt service				Interest ascribed to the retirement plans[1]		Total debt service	
	Consolidated Revenue Fund	Consolidated organizations	Total					
	Millions of dollars		Millions of dollars	As a % of budgetary revenue	Millions of dollars	As a % of budgetary revenue	Millions of dollars	As a % of budgetary revenue
Before reform of government accounting								
1970-1971	197		197	5.2			197	5.2
1971-1972	210		210	4.8			210	4.8
1972-1973	242		242	4.9			242	4.9
1973-1974	288		288	5.1			288	5.1
1974-1975	296		296	4.1			296	4.1
1975-1976	368		368	4.5			368	4.5
1976-1977	456		456	4.8			456	4.8
1977-1978	606		606	5.5			606	5.5
1978-1979	763		763	6.5	54	0.5	817	7.0
1979-1980	882		882	6.8	88	0.7	970	7.4
1980-1981	1 217		1 217	8.4	165	1.1	1 382	9.5
1981-1982	1 686		1 686	9.5	264	1.5	1 950	11.0
1982-1983	1 921		1 921	9.8	379	1.9	2 300	11.8
1983-1984	2 031		2 031	9.4	480	2.2	2 511	11.6
1984-1985	2 414		2 414	10.9	598	2.7	3 012	13.7
1985-1986	2 648		2 648	11.0	706	2.9	3 354	14.0
1986-1987	2 754		2 754	10.9	802	3.2	3 556	14.0
1987-1988	2 751		2 751	9.8	924	3.3	3 675	13.1
1988-1989	2 665		2 665	9.0	1 137	3.8	3 802	12.8
1989-1990	2 829		2 829	9.1	1 186	3.8	4 015	12.9
1990-1991	3 026		3 026	9.2	1 411	4.3	4 437	13.4
1991-1992	3 222		3 222	9.3	1 444	4.2	4 666	13.5
1992-1993	3 475		3 475	9.8	1 281	3.6	4 756	13.5
1993-1994	3 750		3 750	10.4	1 566	4.4	5 316	14.8
1994-1995	4 333		4 333	11.9	1 549	4.3	5 882	16.2
1995-1996	4 287		4 287	11.2	1 747	4.6	6 034	15.8
1996-1997	3 906		3 906	10.5	1 949	5.2	5 855	15.7
After reform of government accounting								
1997-1998	3 800	577	4 377	10.5	2 965	7.1	7 342	17.7
1998-1999	4 159	614	4 773	10.4	2 414	5.2	7 187	15.6
1999-2000	4 120	621	4 741	10.1	2 632	5.6	7 373	15.7
2000-2001	4 378	634	5 012	9.9	2 594	5.1	7 606	15.0
2001-2002	3 970	574	4 544	9.1	2 717	5.4	7 261	14.5
2002-2003	3 935	549	4 484	8.6	2 648	5.1	7 132	13.7
2003-2004	3 913	586	4 499	8.3	2 742	5.0	7 241	13.3
2004-2005[P]	4 080	614	4 694	8.3	2 788	4.9	7 482	13.2
2005-2006[P]	4 319	678	4 997	8.5	2 676	4.6	7 673	13.1

P: Preliminary results for 2004-2005 and forecasts for 2005-2006.
1 Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

Section 4

Report on the Application of the *Balanced Budget Act*

Summary 3

Compliance with the requirements of the Act 3

Summary

The *Act respecting the elimination of the deficit and a balanced budget* was adopted unanimously by the National Assembly of Québec on December 19, 1996.

The Act was amended in the fall of 2001, when the *Act to establish a budgetary surplus reserve fund* was adopted, in order to adapt it to the new budgetary context. Since that time, the Act has been known as the *Balanced Budget Act*.

Under section 15[1] of the Act, the Minister of Finance is required to report in the Budget Speech on the application of the Act.

Compliance with the requirements of the Act

The government achieved surpluses in certain years in relation to the objectives set by the Act:

— under section 9[2] of the Act, deficits may be incurred up to the amount of surpluses accumulated;

— as indicated in Table 4.1, accumulated surpluses were revised to $819 million at the end of the 2003-2004 fiscal year, given the consolidated deficit of $358 million posted for that year, after the exceptional losses of the Société générale de financement du Québec (SGF).

TABLE 4.1

SURPLUSES ACCUMULATED FROM 1996-1997 TO 2003-2004 UNDER THE *BALANCED BUDGET ACT*
(millions of dollars)

	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Deficit provided for by the Act	– 3 275	– 2 200	– 1 200	—	—	—	—	—
Budgetary balance disclosed in the public accounts for the fiscal year concerned	– 3 217	– 2 192	126	30	427	22	– 694	– 358
Surpluses (overruns)	**58**	**8**	**1 326**	**30**	**427**	**22**	**– 694**	**– 358**
Accumulated surpluses, end of year	**58**	**66**	**1 392**	**1 422**	**1 849**	**1 871**	**1 177**	**819**

1 The first paragraph of section 15 stipulates that "the Minister shall report to the National Assembly in the Budget Speech on the objectives pursued by this Act, on the achievement of those objectives and on the variance recorded, if any."

2 Section 9 stipulates that "if the Government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus."

In 2004-2005, a balanced budget was achieved, thereby maintaining accumulated surpluses at $819 million.

TABLE 4.2

ANTICIPATED ACCUMULATED SURPLUSES UNDER THE *BALANCED BUDGET ACT*
(millions of dollars)

	2004-2005[1]
Accumulated surpluses, beginning of year	819
Surpluses	–
Accumulated surpluses, end of year	**819**

1 Preliminary results.

Section 5

Personal Income Tax Reduction of $372 Million for Québec Taxpayers

Personal income tax reduction of $372 million 3

New $500 deduction for workers 7

Reform of support for persons with disabilities and natural caregivers 10

Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment 11

Improvement of the tax assistance for natural caregivers 13

Increase in ceilings on RRSP and RPP contributions 21

Changes to tax credits for medical expenses 22

Personal income tax reduction of $372 million

With the 2005-2006 Budget Speech, the government is announcing an income tax reduction of $372 million over a full year. This reduction in taxes is in addition to the gains provided through the 2004-2005 Budget.

In the 2004-2005 Budget Speech, the government announced it was putting $1 billion back into taxpayers' pockets by introducing the following measures in 2005:

- Child Assistance;
- Work Premium;
- a single tax system.

The tax reduction announced in this budget will bring the combined gains for taxpayers to $1.4 billion in 2006.

TABLE 1

TAXPAYER GAIN BY INCOME BRACKET – 2006
(millions of dollars)

	Cumulative gain		
Taxpayer income	2004-2005 Budget	2005-2006 Budget	Total
$15 000 or less	369	15	384
$15 000 to $25 000	255	62	317
$25 000 to $50 000	260	166	426
$50 000 to $75 000	90	81	171
$75 000 to $100 000	23	27	50
Over $100 000	12	21	33
TOTAL	1 009	372	1 381

The government will also index the tax system in 2006, making $315 million more per year available to taxpayers.

Indexing the Québec tax system

In order to protect the purchasing power of Québec taxpayers against inflation, the government indexes the personal income tax system. All three taxable income brackets in the tax table as well as most tax credits are indexed.

In 2006, the government will index the tax system at a cost of $315 million. The cumulative impact for the period 2003-2006 is $895 million.

IMPACT OF INDEXATION OF THE PERSONAL INCOME TAX SYSTEM 2003-2006

	2003	2004	2005	2006
Indexation rate (%)	1.47	2.00	1.43	2.00[1]
Impact in millions of dollars	165	235	180	315[2]
Cumulative impact in millions of dollars	165	400	580	895

1 Based on an assumed indexation rate of 2%. The real indexation rate for 2006 will be known in fall 2005.
2 The higher impact in 2006 essentially reflects two factors. First, the indexation rate is higher in 2006 than in 2005, and second, the Child Assistance payment and the Work Premium will be indexed beginning in 2006.

Changes to the tax system

The tax reduction announced in the 2005-2006 Budget[1] is provided through:

— a new $500 tax deduction for workers;

— an increase in the tax assistance for persons with a severe and prolonged mental or physical impairment;

— improvement of the tax assistance for caregivers;

— higher ceilings on contributions to registered retirement savings plans (RRSP) and registered pension plans (RPP);

— an increase in the refundable tax credit for medical expenses.

The financial impact of the tax reduction will be:

— $81 million in 2005-2006;

— $337 million in 2006-2007.

TABLE 2

IMPACT OF THE PERSONAL INCOME TAX REDUCTION IN THE 2005-2006 BUDGET
(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2005-2006	2006-2007
New $500 deduction for workers	-300	-70	-300
Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment	-7	-1	-7
Improvement of the tax assistance for caregivers			
— Increase in the supplement for handicapped children	-8	-2	-8
— New refundable tax credit for natural caregivers	-28	–	-5
Higher ceilings on RRSP and RPP contributions	-27	-7	-15
Increase in the refundable tax credit for medical expenses	-2	-1	-2
TOTAL	**-372**	**-81**	**-337**

1 The changes to the personal income tax system are explained in greater detail in *2005-2006 Budget: Additional Information on the Budgetary Measures.*

Reduction in the tax burden differential

The announced tax reductions will narrow the gap in personal income tax burden between Québec and the other provinces.

In 2003, the average tax burden differential with the other provinces was $2.2 billion. In 2006, the differential will drop by 43% to $1.2 billion.

TABLE 3

PERSONAL INCOME TAX
TAX BURDEN DIFFERENTIAL BETWEEN QUÉBEC AND THE OTHER PROVINCES DETERMINED BY APPLYING THE OTHER PROVINCES' TAX STRUCTURE TO QUÉBEC[1]
(millions of dollars)

	2003	2005[2]	2006[3]
Differential Québec – other provinces[4]			
Alberta	4 433	4 081	3 756
Ontario	5 627	3 758	3 420
British Columbia	3 538	3 046	3 057
Saskatchewan	2 234	1 799	1 461
New Brunswick	1 526	798	573
Manitoba	937	577	414
Nova Scotia	689	435	86
Prince Edward Island	1 099	390	41
Newfoundland and Labrador	-677	-1 316	-1 663
AVERAGE DIFFERENTIAL	**2 156**	**1 508**	**1 238**

1 Including health-care contributions and family assistance measures (e.g. family allowances, refundable tax credits).
2 Before the provinces' 2005-2006 budgets.
3 After Québec's 2005-2006 Budget and the 2005-2006 budgets delivered by other provinces as at April 15, 2005, that is, Newfoundland and Labrador, Prince Edward Island, New Brunswick, Manitoba, Saskatchewan, Alberta and British Columbia.
4 The Québec tax abatement of 16.5% is subtracted from the tax burden differential.

New $500 deduction for workers

Work-related expenses incurred by workers are normally not deductible from taxable income. To recognize the fact that certain costs must be incurred in order to earn income, such as for clothing and transportation, the 2005-2006 Budget Speech provides for a new tax deduction for workers.

As of January 1, 2006, workers will be entitled to a tax deduction equal to 6% of their earned income, up to $500.

Nearly 3.3 million workers, including 162 000 who are self-employed, will receive an income-tax cut of $300 million.

Increase in disposable income

The following table shows the cumulative gain from the 2004-2005 and 2005-2006 budgets for a couple with two children and two earned incomes. Their total tax relief is:

— $4 626 for a total family income of $15 000;

— $4 386 for a total family income of $25 000;

— $850 for a total family income of $50 000;

— $780 for a total family income of $75 000.

TABLE 4

INCREASE IN DISPOSABLE INCOME FOR A COUPLE WITH TWO CHILDREN AND TWO EARNED INCOMES[1] – 2006
(dollars)

Earned household income	2004-2005 Budget[2]			2005-2006 Budget	Increase in disposable income
	Child Assistance[3]	Work Premium	Total	Deduction for workers	
0	1 810	0	1 810	0	1 810
5 000	1 810	350	2 160	0	2 160
10 000	1 810	1 600	3 410	0	3 410
15 000	1 810	2 816	4 626	0	4 626
20 000	1 810	2 316	4 126	0	4 126
25 000	2 410	1 816	4 226	160	4 386
30 000	1 906	1 316	3 222	160	3 382
35 000	1 106	816	1 922	160	2 082
40 000	643	316	959	160	1 119
45 000	720	0	720	160	880
50 000	670	0	670	180	850
75 000	580	0	580	200	780
100 000	0	0	0	220	220

1 One of the spouses earns 60% of the household income and the other, 40%.
2 Including the impact of indexation in 2006 of the Child Assistance payment and the Work Premium at an assumed rate of 2%. The real indexation rate for 2006 will be known in fall 2005.
3 Impact of the Child Assistance payment net of the non-refundable tax credits respecting dependent children, the tax reduction in respect of families, and the family allowance.

A single-parent family with one child will see its disposable income go up by:

— $2 329 for a total family income of $15 000;

— $1 574 for a total family income of $25 000;

— $638 for a total family income of $50 000;

— $290 for a total family income of $75 000.

TABLE 5

INCREASE IN DISPOSABLE INCOME FOR A SINGLE-PARENT FAMILY WITH ONE CHILD – 2006
(dollars)

Earned household income	2004-2005 Budget[1]			2005-2006 Budget	Increase in disposable income
	Child Assistance[2]	Work Premium	Total	Deduction for workers	
0	829	0	829	0	829
5 000	829	780	1 609	0	1 609
10 000	829	2 186	3 015	0	3 015
15 000	563	1 686	2 249	80	2 329
20 000	1 397	1 186	2 583	80	2 663
25 000	808	686	1 494	80	1 574
30 000	663	186	849	115	964
35 000	688	0	688	115	803
40 000	638	0	638	100	738
45 000	588	0	588	100	688
50 000	538	0	538	100	638
75 000	170	0	170	120	290
100 000	0	0	0	120	120

1 Including the impact of indexation in 2006 of the Child Assistance payment and the Work Premium at an assumed rate of 2%. The real indexation rate for 2006 will be known in fall 2005.
2 Impact of the Child Assistance payment net of the non-refundable tax credits respecting dependent children, the tax reduction in respect of families, and the family allowance.

Reform of support for persons with disabilities and natural caregivers

In the 2005-2006 Budget Speech, the government is announcing a reform of the support provided to persons with disabilities and to natural caregivers:

— an increase in the tax assistance for persons with a severe and prolonged mental or physical impairment;

— an increase in the supplement for handicapped children;

— introduction of a refundable tax credit for natural caregivers.

These measures will mean a total gain of $43 million for 81 000 persons with disabilities and natural caregivers.

The reform will increase the total support provided to these individuals by nearly 50%, from $85 million to $128 million.

TABLE 6

INCREASE IN SUPPORT PROVIDED TO PERSONS WITH DISABILITIES AND NATURAL CAREGIVERS – FULL YEAR

	Number of recipients[1]	Gain in millions of dollars
Persons with a severe and prolonged mental or physical impairment	15 000	7
Natural caregivers of minor children	16 000	8
Natural caregivers of adults	50 000	28
TOTAL	**81 000**	**43**

1 Excluding persons for whom the gain is small.

Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment

The 2005-2006 Budget Speech provides for an increase in tax assistance for persons with a severe and prolonged mental or physical impairment.

The changes will increase the assistance provided to people with disabilities by $7 million per year.

Broadening of eligibility for the tax credit

With a view to improving access to the non-refundable tax credit respecting a severe and prolonged mental or physical impairment, the 2005-2006 Budget Speech provides for changes to the eligibility criteria for the 2005 taxation year, including:

— extending eligibility to individuals with multiple limitations if the cumulative effects of the limitations are equivalent to a marked restriction in the ability to perform a single basic activity of daily living.

Some 15 000 more people will be able to claim the non-refundable tax credit respecting a severe and prolonged mental or physical impairment, enjoying a total gain of $6 million.

TABLE 7

GAIN RESULTING FROM THE BROADENING OF ELIGIBILITY FOR THE NON-REFUNDABLE TAX CREDIT RESPECTING A SEVERE AND PROLONGED MENTAL OR PHYSICAL IMPAIRMENT - 2005

	Number of recipients	Amount of the tax credit[1]	Gain in millions of dollars
New recipients	15 000	Up to $440	6

1 $2 200 converted into a tax credit at a rate of 20%.

Increase in the tax credit and automatic indexation

The 2005-2006 Budget Speech provides for an increase in the amount used to calculate the non-refundable tax credit respecting an impairment from the current $2 200 to $2 250 for the 2006 taxation year. This change will raise the tax value of the tax credit from $440 to $450, representing a total gain of $1 million for the taxpayers concerned.

As of January 1, 2007, the amount granted will be indexed annually, at the same rate as the parameters of the personal income tax system.

Current tax assistance for persons with a severe and prolonged mental or physical impairment

To recognize their reduced ability to pay taxes, the Québec tax system allows persons with a severe and prolonged mental or physical impairment to claim a non-refundable tax credit.

In 2005, the tax value of this non-refundable tax credit is equal to 20% of $2 200, or $440. Persons with a mental or physical disability may transfer the unused portion of the tax credit to a spouse, parent or natural caregiver.

In 2005, the total cost to the government of the non-refundable tax credit respecting a severe and prolonged mental or physical impairment is $27 million. Nearly 68 000 taxpayers receive this tax assistance.

NON-REFUNDABLE TAX CREDIT RESPECTING A SEVERE AND PROLONGED MENTAL OR PHYSICAL IMPAIRMENT – 2005

Number of recipients	68 000
Tax credit	
• Amount	$2 200
• Conversion rate	20%
Tax value	$440
Total cost	$27 million

Improvement of the tax assistance for natural caregivers

The 2005-2006 Budget provides for additional financial assistance of $36 million for natural caregivers. The increased support will improve the tax system with regard to caregivers by:

— broadening the definition of persons giving entitlement to the tax credits so as to make the tax system fairer;

— grouping the fiscal measures for natural caregivers, which will simplify the support measures they are entitled to;

— increasing the amounts of the tax credits to provide additional support.

More specifically, the 2005-2006 Budget provides for:

— an increase in the supplement for handicapped children granted to natural caregivers of minor children, generally their parents ($8 million);

— introduction of a new refundable tax credit for natural caregivers of adults ($28 million).

Increase in the supplement for handicapped children

As of January 1, 2006, the supplement for handicapped children granted to parents of a handicapped child under 18 will be raised from $1 452 to $1 902, an increase of $450 per year. The higher supplement will replace the transfer of the unused portion of the non-refundable tax credit respecting an impairment to the parents.

A total of 28 000 families will receive additional assistance of roughly $8 million per year in order to support their handicapped children.

TABLE 8

INCREASE IN THE SUPPLEMENT FOR HANDICAPPED CHILDREN GRANTED TO NATURAL CAREGIVERS - 2006

Grouping of two tax credits into a single tax credit and greater assistance

Before budget	After budget
Supplement for handicapped children ▪ 28 000 recipient families ▪ $1 452[1] per year ($121 per month) ▪ $41 million	**Supplement for handicapped children raised by $450** ▪ 28 000 recipient families ▪ $1 902[1] per year ($158.50 per month): gain of between $10 and $450 per year
Transfer to parents of the unused portion of the non-refundable tax credit respecting an impairment ▪ 12 000 families receive both the transfer and the supplement ▪ Between $0 and $440 per year ▪ $5 million	
Total assistance: $46 million	***Total assistance: $54 million, or $8 million more***

1 Before indexing of the $1 452 supplement for handicapped children in 2006.

❑ Increase in the disposable income of parents of handicapped children

The following table shows the increase in disposable income resulting from the increase in the supplement for handicapped children for a one-income couple with one child.

The increase in the supplement for handicapped children will improve the current tax system. Henceforth, all parents will be entitled to the supplement as well as to the equivalent of the tax credit respecting an impairment. Previously, they were not entitled to both if:

— they had no income tax payable;

— the child's disability was not deemed severe enough to give entitlement to the tax credit respecting an impairment.

TABLE 9

GAIN RESULTING FROM THE INCREASE IN THE SUPPLEMENT FOR HANDICAPPED CHILDREN COUPLE WITH ONE INCOME AND ONE CHILD[1] – 2006
(dollars)

		Before 2005-2006 Budget			After 2005-2006 Budget	
Earned income	Income tax payable	Supplement for handicapped children[2]	Transfer of tax credit respecting an impairment	Total	Supplement for handicapped children[2]	Increase in disposable income
Minor child with a severe and prolonged mental or physical impairment						
0	0	1 452	0	1 452	1 902	450
15 000	0	1 452	0	1 452	1 902	450
25 000	194	1 452	194	1 646	1 902	256
50 000	5 050	1 452	440	1 892	1 902	10
75 000	10 763	1 452	440	1 892	1 902	10
100 000	16 763	1 452	440	1 892	1 902	10
Minor child with a development disorder[3]						
0	0	1 452	–	1 452	1 902	450
15 000	0	1 452	–	1 452	1 902	450
25 000	194	1 452	–	1 452	1 902	450
50 000	5 050	1 452	–	1 452	1 902	450
75 000	10 763	1 452	–	1 452	1 902	450
100 000	16 763	1 452	–	1 452	1 902	450

1 For the purposes of this example, the child has no income.
2 Before indexing of the $1 452 supplement for handicapped children in 2006.
3 For the purposes of this example, the child's development disorder did not give entitlement to the tax credit respecting a severe and prolonged mental or physical impairment before the Budget, but gave entitlement to the supplement for handicapped children.

Support currently provided to parents of handicapped children

The 2004-2005 Budget introduced a refundable tax credit called "Child Assistance," which includes two components: the Child Assistance payment and the supplement for handicapped children.

- Child Assistance is paid, at the start of each quarter, to all families with children under 18, regardless of whether a child is handicapped. In 2005, the maximum payment is $2 000 for the first child, $1 000 for the second and third child and $1 500 for each subsequent child. Single-parent families receive an additional amount of up to $700. These amounts are reducible on the basis of the parents' income.
- If a child is handicapped, the parents receive the supplement for handicapped children in addition to the Child Assistance payment. The supplement for handicapped children is a refundable tax credit in the amount of $121 per month, or $1 452 per year. It is paid at the start of each quarter, at the same time as the Child Assistance payment.

A parent with a minor handicapped child may claim a transfer of the unused portion of the non-refundable tax credit respecting a severe and prolonged mental or physical impairment to which the child is entitled. The definition of "severe and prolonged impairment" used for the purposes of this tax credit is generally more restrictive than the definition of "handicap" used for the purposes of the supplement for handicapped children.

For example, a couple with a single earned income of $50 000 and one child with a severe and prolonged impairment will receive support in the amount of $3 604, in the form of:

- Child Assistance, $1 712;
- the supplement for handicapped children, $1 452;
- transfer of the tax credit respecting an impairment, $440.

If the child's handicap is not deemed serious enough to give entitlement to the tax credit respecting an impairment, the parents receive only the Child Assistance payment and the supplement for handicapped children, that is, $3 164 ($1 712 + $1 452).

CHILD ASSISTANCE AND TRANSFER OF THE TAX CREDIT RESPECTING AN IMPAIRMENT COUPLE WITH ONE INCOME AND ONE CHILD[1] – 2005
(dollars)

	Support for handicapped children				
Earned income	Child Assistance	Supplement for handicapped children	Total	Transfer of tax credit respecting an impairment	Total
0	2 000	1 452	3 452	0	3 452
15 000	2 000	1 452	3 452	0	3 452
25 000	2 000	1 452	3 452	268	3 720
50 000	1 712	1 452	3 164	440	3 604
75 000	712	1 452	2 164	440	2 604
100 000	561	1 452	2 013	440	2 453

1 For the purposes of this example, the child has no income.

New refundable tax credit for natural caregivers

The 2005-2006 Budget Speech introduces a new refundable tax credit for natural caregivers of adults as of 2006, up to $1 000 per year.

The tax credit will be partially reduced where the housed person's income exceeds $20 000. The minimum a natural caregiver will receive is $550.

TABLE 10

CALCULATION OF THE NEW TAX CREDIT FOR NATURAL CAREGIVERS BY THE LEVEL OF INCOME OF THE PERSON HOUSED - 2006
(dollars)

	Income of person housed		
	$20 000 or less	$21 500	$22 813 or more
Maximum refundable tax credit	**1 000**	**1 000**	**1 000**
Reduction in tax credit (16% of income that exceeds $20 000)	0	-240	-450
Refundable tax credit (minimum $550)	**1 000**	**760**	**550**

The new refundable tax credit will replace the following two tax measures currently granted to natural caregivers:

— the refundable tax credit for housing a parent ($550);

— transfer to a natural caregiver of the unused portion of the non-refundable tax credit respecting a severe and prolonged mental or physical impairment (maximum $440).

In addition, the new tax credit will be granted to a greater number of natural caregivers by broadening the definition of persons giving entitlement to the tax credit. Approximately 50 000 more natural caregivers will benefit from this new measure.

All told, the assistance granted to caregivers will increase by $28 million per year.

Furthermore, the 2005-2006 Budget provides for automatic indexation of the new tax credit as of January 2007.

TABLE 11

NEW REFUNDABLE TAX CREDIT FOR NATURAL CAREGIVERS
Grouping of two tax credits into a single tax credit, broadening of the definition of persons giving entitlement to the tax credit and increase in assistance – 2006

Before budget	After budget
Refundable tax credit for housing a parent ▪ 26 000 natural caregivers ▪ $550 per year ▪ $17 million **Transfer of the unused portion of the non-refundable tax credit respecting an impairment** ▪ 10 000 natural caregivers ▪ $0-$440 per year ▪ $4 million ***Total assistance: $21 million***	**New refundable tax credit for natural caregivers** ▪ 76 000 natural caregivers, that is, 50 000 more ▪ $1 000, reducible on the basis of the income of the person housed[1] (minimum $550) ***Total assistance: $49 million, or $28 million more***

1 The reduction rate is 16% of the housed person's income that exceeds $20 000.

❑ Increase in the number of recipients

The new tax credit will benefit 50 000 more natural caregivers than the tax credit for housing a parent. In addition to those who are already eligible, the definition of persons giving entitlement to the tax credit is being broadened to include:

— ascendants aged 18 to 59 who have a severe and prolonged mental or physical impairment;

— brothers, sisters, children, grandchildren, nieces and nephews aged 18 or over who have a severe and prolonged mental or physical impairment.

TABLE 12

CATEGORIES OF HOUSED PERSONS GIVING ENTITLEMENT TO TAX CREDITS FOR THEIR CAREGIVERS[1]
(before and after 2005-2006 Budget)

	No impairment			Impairment[2]		
	Québec			Québec		
Person housed	Before budget	After budget	Federal	Before budget	After budget	Federal
Age 18 to 59						
Father / mother / grandparents					●	○
Brother / sister					●	○
Uncle / aunt					●	○
Great-uncle / great-aunt					●	
Child / grandchildren / nephew / niece					●	○
Age 60 to 64						
Father / mother / grandparents				○	○	○
Brother / sister					●	○
Uncle / aunt				○	○	○
Great-uncle / great-aunt				○	○	
Child / grandchildren / nephew / niece					●	○
Age 65 to 69						
Father / mother / grandparents			○	○	○	○
Brother /sister					●	○
Uncle / aunt				○	○	○
Great-uncle / great-aunt				○	○	
Child / grandchildren / nephew / niece					●	○
Age 70 and over						
Father / mother / grandparents	○	○	○	○	○	○
Brother / sister					●	○
Uncle / aunt	○	○		○	○	○
Great-uncle / great-aunt	○	○		○	○	
Child / grandchildren / nephew / niece					●	○

○ Current system.
● New people giving entitlement to the tax credit.

1 The tax credit is refundable under the Québec tax system and non-refundable under the federal tax system.
2 Under the federal tax system, the person must be a dependent of the natural caregiver owing to a severe and prolonged mental or physical impairment. Under the Québec tax system, the person gives entitlement to the tax credit even if he or she is not financially dependent on the caregiver.

❑ Increase in natural caregivers' disposable income

The following table shows the gain resulting from the new refundable tax credit for natural caregivers for a couple with one earned income.

The new tax credit will especially help:

— low-income natural caregivers who do not pay income tax and therefore are currently not entitled to transfer the unused portion of the housed person's tax credit respecting an impairment;

— caregivers housing a person 18-59 years old who has a severe and prolonged mental or physical impairment, because handicapped persons in this age group currently do not give entitlement to the tax credit for housing a parent.

TABLE 13

INCREASE IN DISPOSABLE INCOME RESULTING FROM THE NEW REFUNDABLE TAX CREDIT FOR NATURAL CAREGIVERS – CAREGIVER WITH AN EARNED INCOME AND A SPOUSE – 2006
(dollars)

		Before 2005-2006 Budget			After 2005-2006 Budget	
Caregiver's earned income	Income tax payable	Tax credit for housing a parent	Transfer of tax credit respecting an impairment	Total	New tax credit for caregivers	Increase in disposable income
Caregiver houses his or her adult child who has a severe and prolonged impairment[1]						
0	0	–	0	0	1 000	1 000
15 000	0	–	0	0	1 000	1 000
25 000	194	–	194	194	1 000	806
50 000	5 050	–	440	440	1 000	560
75 000	10 763	–	440	440	1 000	560
100 000	16 763	–	440	440	1 000	560
Caregiver houses his or her 60-year-old father who has a severe and prolonged impairment[1]						
0	0	550	0	550	1 000	450
15 000	0	550	0	550	1 000	450
25 000	194	550	194	744	1 000	256
50 000	5 050	550	440	990	1 000	10
75 000	10 763	550	440	990	1 000	10
100 000	16 763	550	440	990	1 000	10

1 For the purposes of this example, the person housed receives employment-assistance benefits.

Increase in ceilings on RRSP and RPP contributions

The tax benefits related to registered retirement savings plans (RRSP) and registered pension plans (RPP) are twofold: the contributions made to these plans are deductible and the investment income earned from them is non-taxable.

The amounts invested in an RRSP or RPP as well as the income earned from those investments become taxable when they are withdrawn. Taxpayers thus benefit from both:

— a tax deferral on the income earned and on the returns;

— tax savings, provided the taxation rate applied to withdrawals is lower than the rate in effect when the contributions deduction was allowed.

The 2005-2006 Budget provides for harmonization of Québec's tax rules regarding retirement savings with the federal tax rules stemming from the federal budget brought down on February 23, 2005. For example, the annual ceilings on RRSP and RPP contributions will gradually be raised by:

— $1 000 per year as of 2007 (up to $22 000 in 2010) for RRSPs;

— $1 000 per year as of 2006 (up to $22 000 in 2009) for defined-contribution RPPs.

The impact on the government's financial framework is estimated at $7 million in 2005-2006 and $15 million in 2006-2007.

TABLE 14

INCREASE IN CEILINGS ON RRSP AND RPP CONTRIBUTIONS
(dollars)

	RRSP ceilings		RPP ceilings			
			Defined-contribution		Defined-benefit[1]	
Taxation year	Before	After	Before	After	Before	After
2005	16 500	16 500	18 000	18 000	2 000	2 000
2006	18 000	18 000	Indexed	19 000	Indexed	2 111
2007	Indexed	19 000		20 000		2 222
2008		20 000		21 000		2 333
2009		21 000		22 000		2 444
2010		22 000		Indexed		Indexed
2011		Indexed				

1 The ceiling is equal to 2% of the income at which the ceiling on defined-contribution RPPs is achieved. The formula used to calculate the ceiling in 2005 is: ($18 000 ÷ 18%) x 2% = $2 000.

Changes to tax credits for medical expenses

The 2005-2006 Budget Speech provides for changes to the tax credits for medical expenses, including:

— an increase in the refundable tax credit for medical expenses;

— tightening of the list of expenses giving entitlement to the refundable tax credit and the non-refundable tax credits for medical expenses.

Increase in the refundable tax credit for medical expenses

To reduce the employment barriers faced by low-income workers, the 2005-2006 Budget raises the maximum amount of the refundable tax credit for medical expenses from $543 to $750 as of 2005. This represents an increase of $207 (38%).

An estimated 10 000 workers will benefit from this increase, at a total cost of $2 million per year.

TABLE 15

INCREASE IN THE REFUNDABLE TAX CREDIT FOR MEDICAL EXPENSES FOR A WORKER EARNING $15 000 AND PAYING $3 500 IN MEDICAL EXPENSES – 2005

	Before budget	After budget	Difference
Medical expenses	**$3 500**	**$3 500**	–
Less 3% of net income of $15 000	-$450	-$450	–
Eligible medical expenses	$3 050	$3 050	–
Rate of tax credit	25%	25%	–
Amount of tax credit[1]	**$543**	**$750**	**$207**
Reduction based on net income: 5% of ($15 000 less $18 865)	$0	$0	–
Tax credit	**$543**	**$750**	**$207**

1 The maximum tax credit is $543 before the budget and $750 after the budget.

Refundable tax credit for medical expenses

The Québec tax system grants low-income workers a refundable tax credit aimed at reimbursing a portion of their medical expenses to encourage them to stay in the labour force.

Low-income workers are entitled to a refundable tax credit equal to 25% of the portion of eligible medical expenses that exceeds 3% of their family income, up to $543 in 2005. To ensure that the tax credit benefits only low-income individuals, the amount of the tax credit is reduced by 5% of family income that exceeds $18 865.

This measure is intended for individuals earning $2 500 or more.

In 2005, the refundable tax credit is expected to benefit over 100 000 workers, at a cost of $22 million.

Removal of expenses paid for cosmetic purposes from the list of eligible expenses

In order to exclude medical expenses incurred more as a result of a personal choice than a health condition, the 2005-2006 Budget Speech provides that expenses paid for services provided for purely cosmetic purposes, i.e. where the treatment is deemed not medically necessary, will no longer be eligible for the tax credits for medical expenses. Such expenses are primarily those paid for:

- breast augmentation or lift;
- liposuction;
- tummy tuck;
- facelift;
- eye lift (upper and lower);
- rhinoplasty;
- laser resurfacing;
- botox injection;
- orthodontic work (for cosmetic purposes);
- teeth whitening.

Also, for the purposes of these tax credits, the expenses incurred for eyeglass frames will be limited to $200 per person per year.

These changes will apply after the day of the 2005-2006 Budget Speech.

Section 6

Encouraging wealth creation

ENCOURAGING WEALTH CREATION 3

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Encouraging wealth creation

Wealth creation and economic prosperity are central, and in many regards are key, to the government's priorities.

By creating more wealth, Quebecers will be in a position to fund, on a sustainable basis, the public services they cherish. A wealthier Québec will offer more jobs to its citizens. A more prosperous Québec will provide Quebecers with the standard of living they are entitled to expect. Wealth-creation will enable Quebecers to build a Québec that mirrors their ambitions.

A conviction

The priority the government places on wealth creation is based on a conviction: Québec is far from fully exploiting its growth and development potential.

Yet we enjoy substantial strengths. Québec has a highly skilled workforce. Its economy is diversified and is bolstered by creative and innovative entrepreneurs. Companies in Québec benefit from competitive location and operating costs.

However, these considerable assets are not sufficiently developed. We must place more trust in individual initiative and remove the obstacles that stand in its way. We must stimulate investment, encourage innovation and support efforts to modernize our productive plant. For the government, fostering efforts to create wealth, in every region, is a priority.

The challenges

By developing our full potential, we will be able to meet the significant economic challenges facing us as we enter the 21st century.

The international environment is in upheaval, with the extremely rapid emergence of the economies of China and India, the effects of which are amplified because of trade globalization. Demographic changes are forcing us to be more productive to offset the approaching decline in our workforce. In the shorter term, the rise of the Canadian dollar has changed operating conditions for Québec companies, testing their competitiveness.

The government is acting

The government is acting to encourage wealth creation and foster economic prosperity. This section sets out the initiatives the government is taking, as part of the 2005-2006 Budget Speech, to give Quebecers the means to achieve their priorities.

To encourage wealth creation and foster economic prosperity in every region, the government has taken four series of initiatives:

— a major reform of the corporate tax system, to encourage investment;

— improved assistance for business financing;

— enhanced support for research and development (R&D), innovation and exporting;

— greater support for regional development.

Overall, these measures will result in the injection of almost $900 million over the next three years to encourage wealth creation and prosperity in the regions.[1]

TABLE 1

ENCOURAGING WEALTH CREATION
FINANCIAL IMPACT FOR THE GOVERNMENT[1]
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Corporate tax reform to encourage investment	– 72	– 159	– 261	– 492
Improved assistance for business financing	– 9	– 30	– 40	– 79
Support for R&D, innovation and exports	– 15	– 31	– 31	– 77
Support for regional development	– 57	– 79	– 104	– 240
TOTAL	**– 153**	**– 299**	**– 436**	**– 888**

1 A detailed table of the financial impacts of all the measures is shown in part 5 of this section.

1 The measures mentioned in this section are discussed in detail in *2005-2006 Budget: Additional Information on the Budgetary Measures*.

1. A reform of corporate taxation to encourage investment

Economic prosperity is based primarily on private investment, which we must stimulate and encourage. To that end, the government is undertaking a major reform of corporate taxation that includes, in particular:

— reducing the tax on capital by more than 50% and raising the income tax rate on large companies;

— reducing the income tax rate of SMEs;

— implementing a capital tax credit for new investments in manufacturing and processing equipment.

Businesses are at the heart of wealth and job creation. Private investment is one of the key factors of this wealth creation: by investing, companies are able to modernize, become more competitive, create jobs and grow in the short and long term.

A performance below our potential

Year after year, Québec has historically posted a weaker performance than its main trading partners, in terms of both private investment and productivity.

CHART 1

COMPARISON OF RATES OF PRIVATE INVESTMENT IN MACHINES AND EQUIPMENT
(percentage of GDP)

Sources: Statistics Canada and Bureau of Economic Analysis.

CHART 2

COMPARISON OF PRODUCTIVITY
(difference in real GDP per hour of work compared to Québec, per cent)

Sources: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics and OECD.

This disappointing performance is at least partly attributable to the tax system under which Québec companies operate. Québec's corporate tax system has become less competitive than those of our trading partners. In addition, this tax system is notable for a tax on capital that is much too high and directly penalizes private investment.

The reform undertaken by the government

The reform of corporate taxation undertaken by the government will ultimately, in 2009, reduce taxes collected from businesses by $305 million.

TABLE 2

REFORM OF CORPORATE TAXATION TO ENCOURAGE INVESTMENT
FINANCIAL IMPACT FOR THE GOVERNMENT
(millions of dollars)

	Impact over three years				
	2005-2006	2006-2007	2007-2008	Total	Ultimate
Corporate tax reform to encourage investment					
Reduction of more than 50% in the tax on capital	– 50	– 221	– 380	– 651	– 858
Increase in the tax rate of large companies	43	174	258	475	587
Reduction in the tax rate of SMEs	– 7	– 30	– 32	– 69	– 34
Introduction of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment	– 55	– 74	– 96	– 225	—
Subtotal – Reform of corporate taxation	**– 69**	**– 151**	**– 250**	**– 470**	**– 305**
Other measure					
Increase in capital cost allowance rates	– 3	– 8	– 11	– 22	– 20
TOTAL	**– 72**	**– 159**	**– 261**	**– 492**	**– 325**

1.1 Reduction of more than 50% of the tax on capital and change in corporate tax rates

A tax system that hampers investment

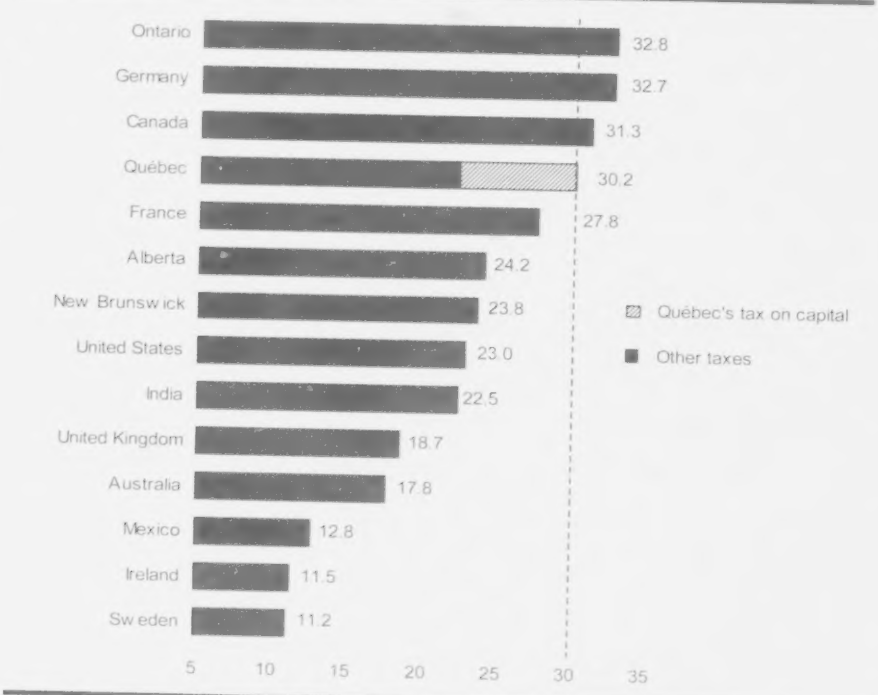
To support investment, Québec's tax system has to be competitive with those of our trading partners.

That is currently not the case, in particular because of its emphasis on the tax on capital. While the tax rate on the profits of Québec companies compares well with that of most industrialized countries and Canadian provinces, the tax on capital is higher than elsewhere.

This situation explains why, for an additional dollar of investment, the effective marginal tax rate applied in Québec is higher than among our chief competitors.

CHART 3

EFFECTIVE MARGINAL CORPORATE TAX RATES[1] – 2004
(percentage)



1 Effective marginal tax rates on capital are tax rates representative of all tax charges applicable on the return generated by an additional dollar of investment. They include the tax on capital, depreciation, corporate income tax, accounting methods for inventory, etc.

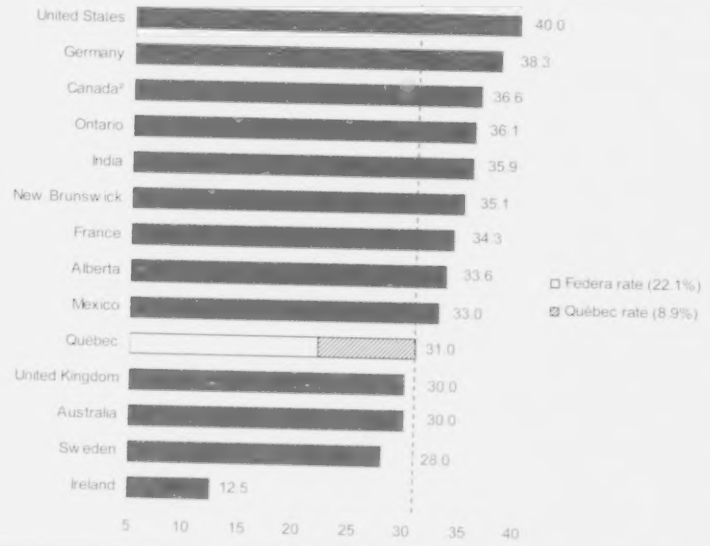
Source: C.D. Howe Institute.

Corporate tax system: a low tax on profits

The tax rate on the profits of Québec companies compares well with that of most industrialized countries and Canadian provinces.

Moreover, the federal tax rate on profits (22%) is more than twice that of Québec (8.9%).

CORPORATE INCOME TAX RATES – 2005[1]
(percentage)



1 Rate in effect in 2004 for jurisdictions other than Canada and Canadian provinces.
2 Average of the combined general tax rates of the provinces other than Québec.
Sources: KPMG and ministère des Finances du Québec.

Corporate tax system: a higher tax on capital than in the other provinces

Québec companies are subject to a very high tax on capital. This tax is levied almost nowhere else in the world.

In Canada, Québec companies are the only ones to pay such a high tax on capital:

- Most provinces have no tax on capital or, if they do, its rate is lower.
- Ontario has undertaken to eliminate this tax by 2012.

A high tax on capital directly raises the cost of investment for companies in Québec.

TAX ON CAPITAL: INTER-PROVINCIAL COMPARISON - 2005

	Rate (percentage)	Exemption threshold (millions of dollars)
Nova Scotia	0.3	5.0
New Brunswick	0.3	5.0
Ontario	0.3	7.5
Manitoba	0.3 to 0.5	5.0
Saskatchewan	0.6	10.0 to 20.0
Québec	**0.6**	**1.0**

Note: British Columbia, Prince Edward Island, Alberta and Newfoundland and Labrador have no tax on capital.

The tax on capital is levied on the paid-up capital of a company.[2] It is essentially a tax on the assets of businesses. It applies recurrently as long as the book value of investments is positive. Accordingly, it directly increases the cost of investments and reduces their return. In addition, this tax raises the risk associated with an investment since it is payable whether or not the company is profitable.

The tax on capital also hinders employment:

— in the short term, by reducing the leeway available to companies;

— in the longer term, by compromising investments that could improve the competitiveness and productivity of businesses;

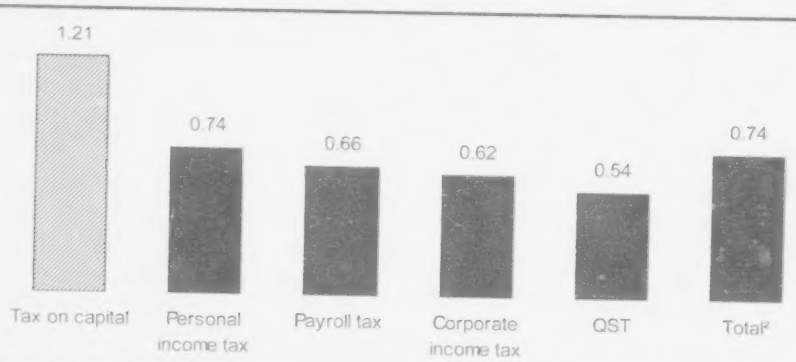
— in addition, by undermining productivity, workers' remuneration is diminished.

The tax on capital, because it impedes capital accumulation, affects the economy's potential growth more strongly than other taxes. In this regard, it is more damaging than corporate income tax.

The tax system can accordingly be made more efficient by reducing the relative weight of the tax on capital compared to other tax sources.

CHART 4

IMPACT ON REAL GDP PER DOLLAR OF TAX REDUCTION[1]
(dollars)



1 The impact of the tax reductions has been estimated using the general equilibrium model of the ministère des Finances du Québec. Long-term impact. Simulations are conducted on a revenue-neutral basis for the government. The government's loss of revenue is offset by a fixed tax.

2 Corresponds to the combined impact of a proportional reduction in all taxes.

2 In general, the paid-up capital of a corporation corresponds to the total of capital stock, retained earnings, borrowings and other long-term debt.

The changes made to the tax on capital and corporate income tax

The government is making the following major changes to the tax on capital and corporate income tax:

— reduction of more than 50% in the tax on capital by 2009, the rate being cut from 0.6% to 0.29% as of January 1, 2006;

— increase in the tax rate of large companies from 8.9% to 11.9% by 2009 starting January 1, 2006;

— reduction in the tax rate of SMEs to 8.5% on January 1, 2006;

— introduction of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment made after the day of this Budget Speech.

A significant portion of this reform will be self-financed by occupying the tax room vacated by the federal government regarding corporate income tax. The combined income tax rate of large companies in Québec will accordingly remain competitive at 30.9%.

The reform will be fully in place by 2009. At that time, the amount of tax on capital collected from businesses will have fallen by almost $860 million, and the government will have injected $305 million to increase investment by businesses.

This reform will make the corporate tax system more competitive and more efficient overall, generating more investment and creating more jobs.

TABLE 3

CHANGES TO THE CORPORATE TAX SYSTEM
FINANCIAL IMPACT FOR THE GOVERNMENT
(percentage and millions of dollars)

	2005	2006	2007	2008	2009	2010
1. Changes to tax rates (%)[1]						
▪ Tax on capital[2]	**0.60**	0.525	0.49	0.36	0.29	**0.29**
▪ Income tax on large companies						
– Québec	**8.9**	9.9	9.9	11.4	11.9	**11.9**
– Federal	22.1	22.1	22.1	20.5	20.0	19.0
▪ Combined Québec / Federal	**31.0**	32.0	32.0	31.9	31.9	**30.9**
▪ Income tax of SMEs[3]	**8.9**	8.5	8.5	8.5	8.5	**8.5**

	2005-06	2006-07	2007-08	2008-09	Ultimate
2. Financial impact for the government ($ million)					
▪ Reduction of more than 50% of the tax on capital	– 50	– 221	– 380	– 703	– 858
▪ Increase in the tax rate of large companies	43	174	258	507	587
▪ Reduction in the tax rate of SMEs	– 7	– 30	– 32	– 34	– 34
▪ Introduction of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment	– 55	– 74	– 96	– 85	–
TOTAL	**– 69**	**– 151**	**– 250**	**– 315**	**– 305**
– SMEs	– 22	– 77	– 116	– 168	– 190
– Large companies	– 47	– 74	– 134	– 147	– 115

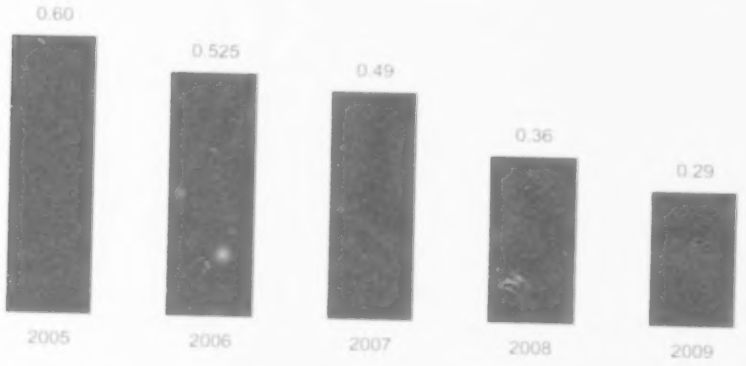
1 The changes to the tax rates apply as of January 1 of each year concerned.
2 As is currently the case, the rate of the tax on capital applicable to financial institutions will be double the general rate of the tax on capital.
3 Québec tax system only. The reduced rate will apply to the first $400 000 of taxable income.

Reduction of more than 50% in the tax on capital

This Budget Speech announces a reduction in the tax on capital of more than half by 2009. The first reduction will take effect as of January 1, 2006.

CHART 5

GRADUAL REDUCTION IN THE GENERAL RATE OF THE TAX ON CAPITAL IN QUÉBEC – 2005 TO 2009
(percentage)



Note: The reduction in the rate takes effect on January 1 of each year.

A look back at the 2003-2004 and 2004-2005 Budget Speeches

- Steps were taken in the last two Budget Speeches to eliminate the tax on capital for SMEs.
- The exemption threshold, namely the limit below which the tax does not apply, was raised successively from $250 000 to $600 000 as at January 1, 2004, then from $600 000 to $1 million as at January 1, 2005.
- More than 210 000 SMEs no longer have to pay this tax, i.e. more than 75% of businesses in Québec.
- Accordingly, the government has reduced the annual tax burden on SMEs by almost $140 million.
- In the 2004-2005 Budget Speech, the government undertook to return the tax on capital to a competitive level for businesses as a whole over five years.

By 2009, the rate of the tax on capital of active businesses in Québec will be reduced to a level comparable to those applicable in the provinces that levy this tax.

TABLE 4

INTER-PROVINCIAL COMPARISON OF THE GENERAL RATE OF THE TAX ON CAPITAL[1]
(percentage)

	2005	2009
Nova Scotia	0.30	0.30
New Brunswick	0.30	0.30
Ontario	0.30	0.225
Manitoba	0.30 / 0.50	0.30 / 0.50
Saskatchewan	0.60	0.60
Québec	**0.60**	**0.29**

1. British Columbia, Alberta, Prince Edward Island and Newfoundland and Labrador do not collect a general tax on capital.

When fully implemented, this reduction of more than 50% in the tax on capital represents an injection of almost $860 million in support of investment in Québec.

Increase in the tax rate of large companies

Part of the reduction in the tax on capital will be funded by the Québec government's gradual occupation of the room vacated by the federal government regarding corporate income tax.[3]

The current rate of 8.9% regarding corporate income tax in Québec will be gradually raised to 11.9% by 2009. Accordingly, the combined corporate tax rate in Québec will remain stable, declining from 31.0% in 2005 to 30.9% as of 2010.

CHART 6

COMBINED CORPORATE TAX RATE IN QUÉBEC[1]
(percentage)

1. In Québec, the rate increases will become effective on January 1 of each year concerned.

3. In the Budget Speech of February 23, 2005, the federal government announced a corporate income tax reduction plan beginning in 2008. The corporate surtax of 1.12% will be eliminated on January 1, 2008 and the general tax rate will be lowered to 20.5% in 2008, 20% in 2009 and 19% in 2010.

Québec will continue to offer a tax rate that is competitive with those in effect in Canada and elsewhere in the world.

CHART 7

COMPARISON OF CORPORATE INCOME TAX RATES[1]
(percentage)

1 Comparison based on stipulated general tax rates, as at April 1, 2005. The average Canadian rate includes the federal rate and the average rate in effect for all the provinces other than Québec.

When fully implemented, the rise in the tax rate of large companies will generate revenues of almost $590 million that the government will use to fund part of the reduction in the tax on capital applicable to them.

Increase in the tax rate of large companies

Part of the reduction in the tax on capital will be funded by the Québec government's gradual occupation of the room vacated by the federal government regarding corporate income tax.[3]

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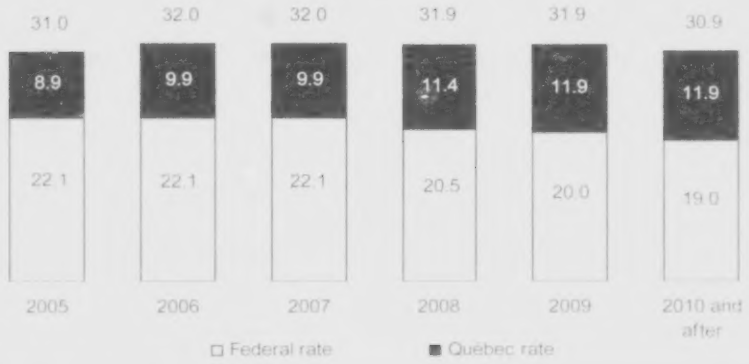

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When fully implemented, the rise in the tax rate of large companies will generate revenues of almost $590 million that the government will use to fund part of the reduction in the tax on capital applicable to them.

Reduction in the tax rate of SMEs

To keep our SMEs competitive, the government is introducing a reduced tax rate specifically for small businesses. It will be set at 8.5% as of January 1, 2006 and will apply to the first $400 000 of taxable income.

Implementation of a reduced tax rate for Québec SMEs will enable them to enjoy favourable tax treatment regarding the three major sources of business taxes.

TABLE 5

RATES AND THRESHOLDS APPLICABLE REGARDING THE THREE MAJOR SOURCES OF TAXATION FOLLOWING THE CHANGES MADE
(percentage and dollars)

	SME		Large company
	Rate (%)	Threshold ($)	Rate (%)
Income tax[1]	8.5	400 000	11.90
Tax on capital[2]	0.0	1 000 000	0.29
Health Services Fund[3]	2.7	1 000 000	4.26

1 The reduced rate of 8.5% will apply to the first $400 000 of taxable income of the company. It will be granted to Canadian-controlled private corporations whose paid-up capital is less than $15 million.

2 A full exemption applies to SMEs whose paid-up capital is less than $1 million. The value of the exemption reduces gradually for SMEs whose paid-up capital is greater than $1 million but less than $4 million.

3 A rate of 2.70% applies for companies whose payroll is less than $1 million, while a rate of 4.26% applies for companies whose payroll is greater than $5 million. The rate rises linearly from 2.70% to 4.26% for companies whose payroll is between $1 million and $5 million.

The reduction in the tax rate of SMEs will ultimately lower their tax payable by $34 million.

1.2 Implementation of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment

The reduction of the tax on capital will make the tax environment more competitive for our businesses and encourage new investment.

The government is taking its reform of corporate taxation even further, by implementing a capital tax credit of 5% of the value of certain strategic investments – namely investments in manufacturing and processing equipment.

This measure will be temporary. It will reduce the tax on capital even more substantially for companies that invest in manufacturing and processing equipment.

The government is accordingly introducing a non-refundable capital tax credit of 5% of the cost of acquisitions of new manufacturing and processing equipment[4] made after this Budget Speech and before January 1, 2008. The measure will:

— offset the tax on capital normally payable on these new investments;

— substantially reduce this tax on other existing assets.

The unused portion of the tax credit can be carried over and applied to the tax on capital payable for future years.

TABLE 6

ILLUSTRATION OF THE APPLICATION OF THE CAPITAL TAX CREDIT
(dollars)

Total assets	**10 000 000**		
• Eligible new investments	**5 000 000**		
• Other existing assets	5 000 000		
	Tax on capital	**Capital tax credit**	**Tax on capital after credit**
Value of the tax credit (5% of the value of eligible investments)	–	250 000	–
Tax on capital			
• On eligible investments	30 000	– 30 000	0
• On other assets	30 000	– 30 000	0
TOTAL	**60 000**	**– 60 000**	**0**
Carry-over of the balance of the tax credit		**– 190 000**	

4 For the purposes of the tax credit, eligible investments are manufacturing and processing equipment, i.e. assets of class 43 for depreciation purposes.

Illustration of the impacts and operation of the capital tax credit

The 5% capital tax credit will apply on the value of new acquisitions of manufacturing and processing equipment. It will apply against the tax on capital payable on all the activities of the company. The unused portion can be carried over to subsequent years.

CASE 1 – NEW MANUFACTURING BUSINESS
(thousands of dollars)

Total investment	10 000
• buildings and equipment	
Eligible investments	5 000
• manufacturing and processing equipment	
Capital tax credit	***250***
• 5% on eligible investments	

The capital tax credit enables the company to completely offset its tax on capital payable regarding all of its activities

	2005	2006	2007	2008	2009	Total
Taxable capital (paid-up capital)	10 000	10 000	10 000	10 000	10 000	
Rate of the tax on capital	0.60%	0.525%	0.49%	0.36%	0.29%	
Tax on capital payable before credit	60	53	49	36	29	227
Capital tax credit	***– 60***	***– 53***	***– 49***	***– 36***	***– 29***	***– 227***
Tax on capital payable	**0**	**0**	**0**	**0**	**0**	**0**
Reduction in the tax on capital	100%	100%	100%	100%	100%	**100%**
Carry-over of the balance of the tax on capital	*190*	*138*	*89*	*53*	*24*	

CASE 2 – MODERNIZATION OF A MANUFACTURING BUSINESS
(thousands of dollars)

Initial assets	10 000				
• buildings and equipment					
Eligible new investments	–	2 000	2 000	–	–
• manufacturing and processing equipment					
Capital tax credit	–	***100***	***100***	–	–
• 5% on eligible investments					

The tax on capital of the business is significantly reduced because of the capital tax credit

	2005	2006	2007	2008	2009	Total
Taxable capital (paid-up capital)	10 000	12 000	14 000	14 000	14 000	
Rate of the tax on capital	0.60%	0.525%	0.49%	0.36%	0.29%	
Tax on capital payable before credit	60	63	69	50	41	283
Capital tax credit	—	***– 63***	***– 69***	***– 50***	***– 18***	***– 200***
Tax on capital payable	**60**	**0**	**0**	**0**	**23**	**83**
Reduction in the tax on capital	0%	100%	100%	100%	44%	**71%**
Carry-over of the balance of the tax on capital	–	*37*	*68*	*18*	–	

Combined effects of the reduction in the tax on capital and the capital tax credit

The following table shows the combined effects of the reduction in the tax on capital and the capital tax credit for various manufacturing businesses:

- The burden of the tax on capital for these businesses will be reduced by an average of 87% by 2009.
- The higher the relative share of eligible investments, the greater the reduction in the tax on capital.
- The capital tax credit of 5% will reduce tax on capital by twice as much on average as the reduction of this tax ($336 000 on average compared with $153 000).

TABLE 7

ILLUSTRATION OF THE COMBINED IMPACT OF THE TAX ON CAPITAL REDUCTION MEASURES FOR A TYPICAL MANUFACTURING BUSINESS
(thousands of dollars)

	Investments		Tax on capital (2005 to 2009)				
	Total	Manufacturing and processing equipment	Tax on capital payable (before measures)	Effect of the reduction plan	Additional effect of the 5% credit	Tax on capital payable (after measures)	Impact of budget measures
Plastic products	10 700	2 400	401	– 111	– 120	170	– 58%
Metals machining	11 700	3 800	443	– 123	– 190	130	– 71%
Precision components	9 700	3 700	349	– 94	– 185	70	– 80%
Electronic components	21 100	9 800	793	– 217	– 490	86	– 89%
Food processing	11 700	5 500	434	– 121	– 275	38	– 91%
Pharmaceutical production	15 600	7 300	557	– 152	– 365	40	– 93%
Specialized chemical products	30 200	17 100	985	– 257	– 728	0	– 100%
Average			**566**	**– 153**	**– 336**	**76**	**– 87%**

Note: Impacts of the measures on the capital tax burden of manufacturing companies, estimated using the KPMG *Competitive Alternatives* licensed cost model.

A clear message to manufacturing companies

The capital tax credit offsets the effects of the tax on capital applicable to manufacturing companies – those that, in general, use capital more intensively.

The capital tax credit sends a clear message to manufacturing companies: they can eliminate their tax on capital if they want to. The government will provide support commensurate with their reinvestment and modernization efforts.

This temporary measure will cost the government an estimated $225 million over the next three years.

TABLE 8

FINANCIAL IMPACT FOR THE GOVERNMENT OF THE CAPITAL TAX CREDIT
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Capital tax credit of 5% of the value of new investments in manufacturing and processing equipment	– 55	– 74	– 96	– 225

1.3 Overall impact of the corporate tax reform

Ultimately, the measures encouraging investment represent an annual injection by the Québec government of more than $300 million in the economy, to the benefit of businesses.

The impact will be $190 million for SMEs and $115 million for large companies.

TABLE 9

ULTIMATE FINANCIAL IMPACT OF MEASURES TO ENCOURAGE INVESTMENT IN QUÉBEC
(millions of dollars)

	SME[1]	Large companies	All businesses
Number of businesses	278 498	3 610	282 108
Measures to encourage investment in Québec			
Reduction of more than 50% in the tax on capital	– 283	– 575	– 858
Increase in the tax rate of large companies	127	460	587
Reduction in the tax rate of SMEs	– 34	–	– 34
Financial impact for the Québec government	**– 190**	**– 115**	**– 305**

1 The size of the company is determined by asset bracket for the manufacturing sector and by income bracket for other sectors. Accordingly, a company is considered an SME if its assets are less than $12 million for the manufacturing sector and its income is less than $20 million for other sectors.

Note: Excluding the effects tied to the rise in capital cost allowance rates and the capital tax credit.

Considering all the initiatives, the impact of the reform is, on average, $225 million per year between 2005 and 2009.

For companies, this represents average annual relief of 5.4% of the burden regarding income tax and the tax on capital, compared to the current situation.

TABLE 10

AVERAGE ANNUAL REDUCTION IN THE BURDEN REGARDING TAX ON CAPITAL AND CORPORATE INCOME TAX IN QUÉBEC – 2005 TO 2009[1]
(percentage and millions of dollars)

	Reduction in millions of dollars			Reduction in per cent		
	SME	Large	Total	SME	Large	Total
Primary sector	-6	-20	-26	-8.3	-15.3	-12.8
Secondary sector						
Manufacturing	-14	-60	-74	-6.8	-5.7	-5.9
Construction	-7	-	-7	-5.0	-1.6	-4.3
	-20	**-60**	**-81**	**-6.1**	**-5.6**	**-5.7**
Tertiary sector						
Transportation, communications and public services	-13	-15	-28	-10.4	-8.2	-9.1
Wholesale and retail trade	-16	-8	-24	-5.0	-2.0	-3.4
Finance, insurance and real estate services	-43	-8	-51	-6.8	-1.6	-4.4
Business services and other services	-7	-7	-14	-3.5	-4.3	-3.8
	-79	**-38**	**-118**	**-6.1**	**-3.0**	**-4.6**
All sectors	**-106**	**-119**	**-225**	**-6.2**	**-4.8**	**-5.4**

1 Including the effects of the 50% reduction in the tax on capital, the rise in the general corporate income tax rate, the lower tax rate for SMEs and the capital tax credit. The results illustrate the effect of all the relief measures for businesses between 2005 and 2009 as a proportion of the tax burden that would have obtained over this period without the changes to the tax system. The increase in capital cost allowance rates is excluded from the financial impacts.

Note: Amounts may not add up to the totals shown because of rounding-off.

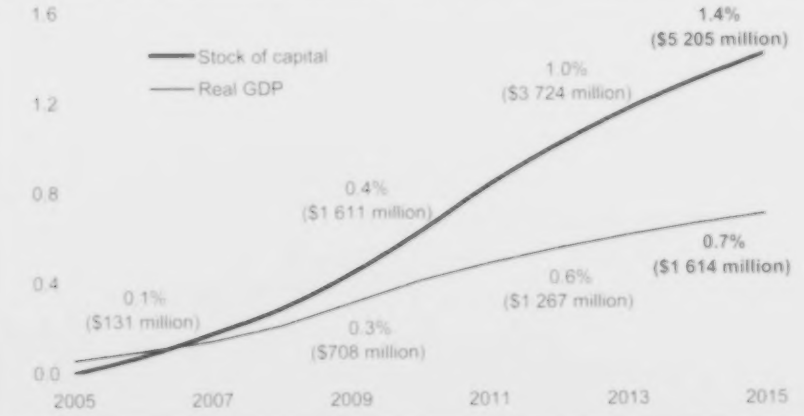
Economic impact of the reform of the corporate tax system

The reduction in the tax on capital and the announced changes to the corporate tax system will improve the efficiency of the tax system and make Québec more attractive for investment. They will have the following long-term impacts:

- increase in annual investment in Québec of $1.4 billion, generating a rise in the stock of capital of $5.2 billion, or 1.4%;
- increase in labour productivity that, following the rise in the stock of capital, will gain 0.4%, i.e. an increase of $250 per worker;
- creation of 11 000 jobs, equivalent to an increase in employment of 0.3%.

Overall, the measures will lead to a rise in real per capita GDP of 0.7%, adding $1.6 billion per year to Québec's real GDP.

IMPACT OF THE REFORM OF THE CORPORATE TAX SYSTEM ON THE STOCK OF CAPITAL AND REAL GDP[1]
(percentage change compared with status quo)



1 The impacts have been estimated using the general equilibrium model of the ministère des Finances du Québec.

2. Improved assistance for business financing

Financing plays a key role in the growth and development of businesses. This financing must be adapted to the challenges facing businesses throughout their existence.

In December 2003, the *Report of the task force on the role of the Québec state in venture capital* (Brunet Report) identified the financing needs of businesses by distinguishing four phases in their growth and development, namely seeding, startup, growth and expansion.

In each case, the Brunet Report noted a number of shortcomings, to which the government is responding in the 2005-2006 Budget Speech by taking several new initiatives.

There are five such initiatives:

- To meet the financing needs of businesses in the seeding and startup phases, the government is adding $78 million to the "regions" component of the regional economic intervention fund (FIER-Régions), thus doubling its initial capital funding.

- For the seeding and startup phases, the government is also setting up measures encouraging labour funds to invest in specialized private investment funds.

- The government will continue to convert the Innovatech corporations into mixed public-private capital corporations, in particular in partnership with Capital régional et coopératif Desjardins (CRCD).

- To specifically cover financing needs in the growth and expansion phases, the government is raising the asset limit of companies eligible for investments by tax-advantaged funds to $100 million.

- To meet the financing needs of businesses in the growth and expansion phases, the government is setting up a new stock savings plan, SME Growth Stock.

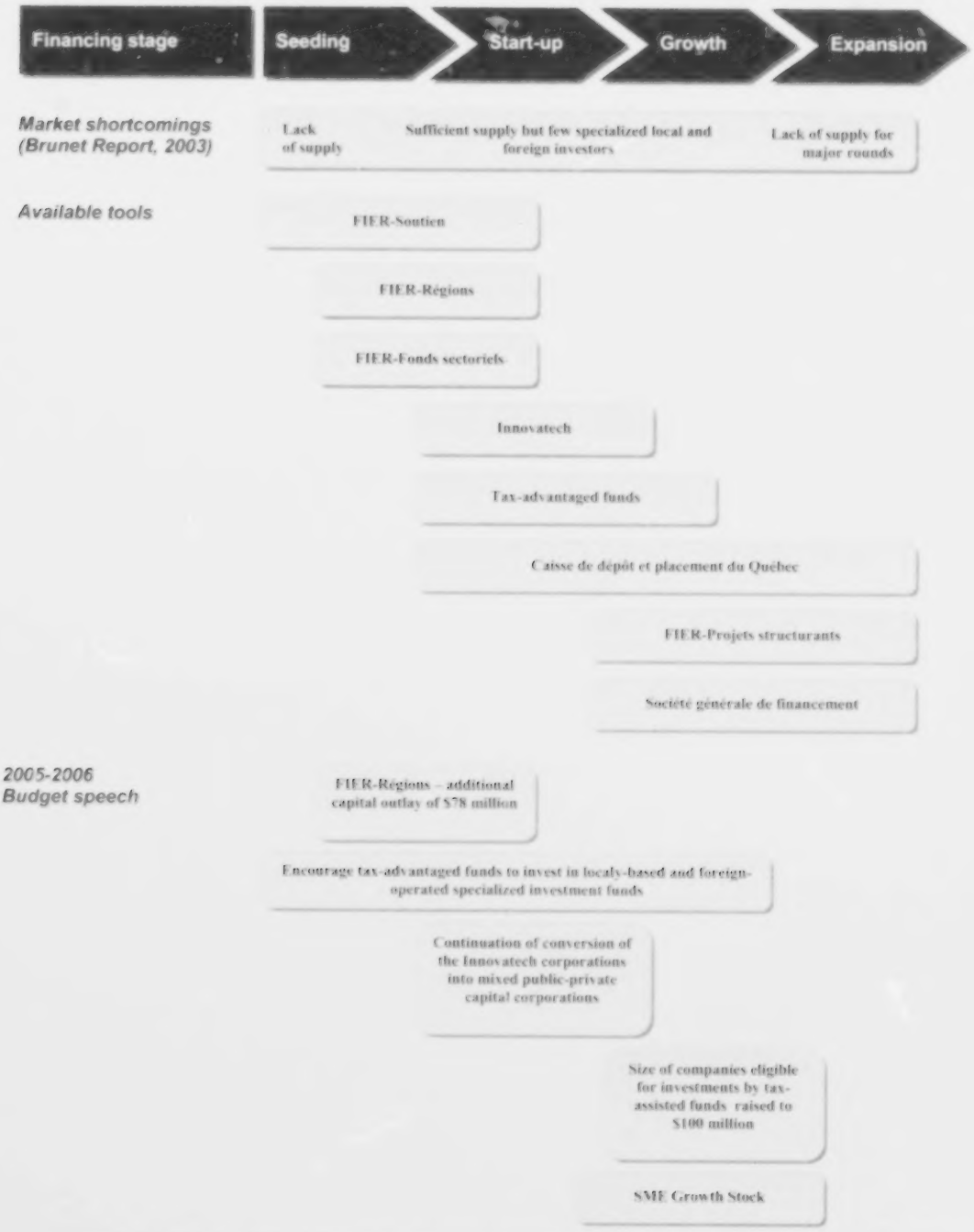
Two more specific measures are being added to encourage business financing – but targeting specific contexts. The government:

- is introducing a tax credit to encourage major employment-generating projects in the information technology sector;

- is introducing a financing support measure for the transmission of family businesses.

DIAGRAM 1

BUSINESS CAPITALIZATION MEASURES BY FINANCING STAGE


Financing stage
Seeding
Start-up
Growth
Expansion
Market shortcomings (Brunet Report, 2003)
Lack of supply
Sufficient supply but few specialized local and foreign investors
Lack of supply for major rounds
Available tools
FIER-Soutien
FIER-Régions
FIER-Fonds sectoriels
Innovatech
Tax-advantaged funds
Caisse de dépôt et placement du Québec
FIER-Projets structurants
Société générale de financement
2005-2006 Budget speech
FIER-Régions – additional capital outlay of $78 million
Encourage tax-advantaged funds to invest in localy-based and foreign-operated specialized investment funds
Continuation of conversion of the Innovatech corporations into mixed public-private capital corporations
Size of companies eligible for investments by tax-assisted funds raised to $100 million
SME Growth Stock

Source: Ministère des Finances du Québec

TABLE 11

FINANCIAL IMPACT OF MEASURES TO IMPROVE ASSISTANCE FOR BUSINESS FINANCING
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Improved assistance for business financing				
Additional capitalization of FIER-Régions	Capital funding of $78 million			
Incentive for tax-advantaged funds to invest in specialized private investment funds[1]	—	—	—	—
Continuation of the conversion of the Innovatech corporations into mixed public-private capital corporations	Capital funding: $10 million from the government and $30 million from CRCD			
Asset limit of companies eligible for investments by tax-advantaged funds raised to $100 million[1]	—	—	—	—
SME Growth Stock	– 4	– 20	– 20	– 44
Assistance for major employment-generating projects in the information technology sector	– 5	– 10	– 20	– 35
Support for the transmission of family businesses	—	—	—	—
TOTAL	**– 9**	**– 30**	**– 40**	**– 79**

1 Changes to investment requirements.

2.1 FIER- Regions: additional capitalization of $78 million

To facilitate financing of SMEs in the regions and encourage the creation of regional funds, the government announced, in the 2004-2005 Budget Speech, the implementation of the regional economic intervention fund (FIER).

FIER-Régions is one of the components of this fund. With an envelope of $78 million, it supports the creation of regional investment funds by matching private sector capital outlays.

Implementation of the FIER-Régions funds started in December 2004, and they have quickly become popular as a financing tool for SMEs in the regions. In almost every region of Québec, groups of investors are working to set up a FIER-Régions fund for their region. Nine regional funds have been created to date, and another 16 are in progress, including a total of eight in the resource regions.

TABLE 12

STATE OF PROGRESS OF FIER-REGIONS[1]
(number of funds)

	Resource regions	Other regions	Total
Accredited funds	2	7	9
Accreditation applications	6	10	16
TOTAL	**8**	**17**	**25**

1 As at April 14, 2005.
Source: Investissement Québec.

To continue to encourage the formation of regional investment funds and ensure that FIER-Régions funds are adequately capitalized, the initial envelope for this FIER component will be raised by $78 million. Accordingly, the government is doubling its contribution to $156 million.

Considering the leverage effect, the government's participation in FIER-Régions will spark investment of $234 million in SMEs in the regions.

TABLE 13

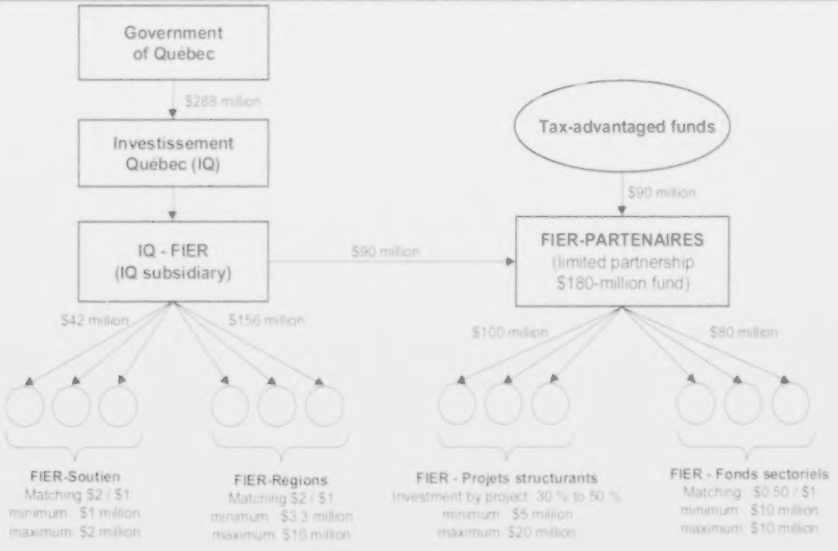
FIER LEVERAGE EFFECT
(millions of dollars)

	Private sector participation	FIER participation	Total investment
FIER-Régions	78	156	234
Other FIER components	181	222[1]	403
TOTAL	**259**	**378**	**637**

1 The FIER participation includes capital funding of $90 million by tax-advantaged funds.

DIAGRAM 2

STRUCTURE OF THE REGIONAL ECONOMIC INTERVENTION FUND



Summary of the government's venture capital initiatives

Revision of the role of the state in venture capital

The Brunet Report on the role of the Québec state in venture capital shed light on the preponderance of the public sector in venture capital, as well as the shortcomings in the business financing chain.

Over the last two years, the government has taken many steps in keeping with the recommendations in the report:

- re-focusing the missions of the Société générale de financement and Investissement Québec;
- privatization of the Société Innovatech Grand Montréal and initiation of a process to convert the three other Innovatech corporations into public-private mixed capital corporations;
- implementation of the regional economic intervention fund (FIER) based on a matching formula for private-sector capital outlays.

The regional economic intervention fund

To improve the supply of venture capital, in particular for SMEs in the regions, the government has announced the implementation of the FIER.

With total capitalization of $378 million, the FIER has four components to act by matching capital outlays by private investors:

- FIER-Soutien, under the aegis of the Conférences régionales des élus, supports the creation of business support funds;
- FIER-Régions supports the creation of regional investment funds;
- FIER-Partenaires, consisting of equal amounts of capital outlays by the government and tax-advantaged funds, is dedicated to the creation of sector investment funds and support for developmental projects in the regions.

The FIER, through its leverage effect, will enable investment of $637 million for the economic development of every region of Québec.

Venture capital investments by the Caisse de dépôt et placement du Québec

Last November, the Caisse de dépôt et placement du Québec announced its new venture capital investment strategy based on:

- partnership and joint investment with the best venture capital funds in Québec;
- support for the development of funds specializing in business seeding and startup;
- rapprochement between Québec and international venture capital.

With this three-part strategy, the Caisse de dépôt et placement du Québec is aiming to achieve a significant leverage effect to encourage the diversity of Québec's venture capital industry.

2.2 Encourage tax-advantaged funds to invest in specialized private investment funds

As the Brunet Report pointed out, the financing needs of businesses, from the seeding to the expansion phase, can be more effectively met by providing them with access to a diversified supply of venture capital.

To that end, the development of local venture capital funds must be accelerated and foreign investors must be attracted to Québec.

- An increase in the number of local venture capital funds is needed to make investments that complement those of other Québec venture capitalists in major financing rounds. These funds will provide healthy competition in the supply of capital, to the greater benefit of companies seeking financing.

- Strategic partnerships reached with foreign investors can produce significant benefits for Québec companies. They place them in contact with international best practices regarding venture capital. In addition, in many cases, foreign investors provide the spark that opens new export markets for our companies.

To diversify the supply of venture capital, the government has decided to turn to tax-advantaged funds, encouraging them to put their capital to work.

Local venture capital funds

The government will encourage the involvement of tax-advantaged funds in the capitalization of local venture capital funds.

For each new dollar committed by tax-advantaged funds in local venture capital funds, the government will allow $1.50 in the calculation of their investment requirements.

However, the objective of the venture capital funds eligible for this new policy must be to invest in Québec SMEs that satisfy the other size criteria defined in the statutes of incorporation of the tax-advantaged funds.

Attract foreign venture capital

To bring Québec closer to foreign venture capital and attract new specialized investment funds to Québec, the Caisse de dépôt et placement du Québec has already announced that it would invest in partnership with the best international venture capital players interested in doing business in Québec.

The government will ensure that the labour funds satisfy their mission to support Québec SMEs by including, for the purposes of their investment requirements, only the amounts reinvested in Québec companies that satisfy the eligibility criteria defined in the statutes of incorporation of the labour funds.

Overall, the government's opening regarding specialized private venture capital investment funds could result in an injection of more than $500 million in Québec businesses by 2010.

2.3 Continuation of the conversion of Innovatech corporations into mixed public-private capital corporations

In the last Budget Speech, the government announced its intention to use its capital outlays in the Innovatech corporations as leverage to attract private capital. The process was started and, on March 17, 2005, the government finalized the transaction involving the sale of the Société Innovatech du Grand Montréal portfolio to foreign investors. That transaction will lead to the injection of nearly $200 million in private capital into the Québec economy.

The three other Innovatech corporations are also engaged in a conversion that will continue into 2005-2006.

An agreement in principle was reached with Capital régional et coopératif Desjardins (CRCD) and Desjardins Capital de risque to establish a partnership aimed at converting Société Innovatech Régions ressources into a mixed public-private capital corporation. The new corporation will be composed of the full portfolio of the Innovatech corporation plus a $30-million capital outlay from the CRCD. This injection of capital will ensure that the businesses that are currently part of the portfolio will have the funds available to maintain their value, and will also enable business startups to be financed in the regions with no major reinvestment by the government.

As for the Innovatech Québec et Chaudière-Appalaches and Innovatech du sud du Québec corporations, the search for partners is in the early stages and will continue over the coming months. The government has decided to inject, by the time the process is completed, an additional $10 million, divided between the two corporations, to help them achieve their mission.

2.4 Size of companies eligible for investments by tax-advantaged funds raised to $100 million of assets

The government will allow tax-advantaged funds to contribute to the effort to raise the supply of capital available for our SMEs.

Briefly, the statutes of incorporation of tax-advantaged funds define a Québec company eligible for the investment requirements of these funds as a company with less than $50 million in assets or no more than $20 million in net equity.[5] These guidelines were defined for the first time in 1983 and raised in 1989, but have not been adjusted since.

This size criterion limits the field of intervention of tax-advantaged funds to businesses that are in their initial phases of development. In general, it excludes companies in more mature growth stages.

Tax-advantaged funds have the pools of capital needed for major financing rounds for more mature companies.

To encourage fast-growing or expanding Québec companies, the size of the companies eligible for the investment standard of the Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins will be raised to $100 million in assets or $50 million in net equity.

TABLE 14

MAXIMUM AUTHORIZED SIZE OF COMPANIES ELIGIBLE FOR THE INVESTMENT REQUIREMENTS OF TAX-ADVANTAGED FUNDS
(millions of dollars)

	Assets	Net equity
Current	50	20
Revised	100	50

5 The statute of incorporation of Fondaction allows one third of its investments eligible for its investment standard to be made in companies whose assets do not exceed $100 million or whose net equity is no more than $40 million.

2.5 Implementation of SME Growth Stock

Problems with the public capital market

Over the years, Québec has developed a diversified base of SMEs operating in many economic sectors. However, too few of these companies reach an appreciable size, such that today, Québec has few medium-size companies.

- Accordingly, more than half the Québec companies listed on the Toronto Stock Exchange have a capitalization under $100 million, while only 22% of them have a capitalization between $100 million and $500 million.

- In Ontario, more than 35% of companies have a market capitalization between $100 million and $500 million.

TABLE 15

COMPANIES LISTED ON THE TORONTO STOCK EXCHANGE[1]
(breakdown by size, as at December 31, 2004)

Market capitalization	Québec		Ontario	
	Number	%	Number	%
Under $100 million[2]	89	53	299	45
Between $100 and $500 million	37	22	234	35
Over $500 million	43	25	132	20
Total	**169**	**100**	**665**	**100**

1 Excluding income trusts and mining companies.
2 Québec companies with capitalization of less than $100 million listed on the Toronto Stock Exchange are of similar size, on average, in terms of assets, i.e. $97 million.
Source: TSX Group

In addition to having companies that are mostly of smaller size, Québec has fewer listed companies than Ontario. While Ontario's economy is twice as large as Québec's, it has roughly four times the number of listed companies.

Furthermore, the small size of Québec companies leads to problems regarding financing on public markets. Companies with a market capitalization under $100 million are of less interest to institutional investors.

When Québec companies do succeed in obtaining financing, the average financing they obtain is much smaller than that obtained by Ontario companies of comparable size.

— An analysis of financings made over the last three years by Québec companies listed on the Toronto Stock Exchange indicates that the average financing was $6 million in Québec for companies with a market capitalization under $100 million.

— By way of comparison, the average financing for Ontario companies of the same size is $25 million.

TABLE 16

AVERAGE FINANCINGS OF PUBLIC COMPANIES[1]
QUÉBEC-ONTARIO COMPARISON – 2002 TO 2004
(millions of dollars)

Market capitalization	Québec	Ontario
Under $100 million	6	25
Between $100 and $500 million	40	78
Over $500 million	208	138

1 Excluding income trusts and mining companies.
Sources: TSX Group and Macdonald and Associates.

Though not the only available source of capital, the public capital market is an essential tool for the development and growth of companies:

— It provides access to more capital and liquidity for securities.

— It helps growing companies to maintain a balance between debt and capital.

— Lastly, it provides an important exit mechanism for investors who contributed to the capitalization and growth of the company before its listing on the stock market.

Assistance for public financings of SMEs

The government is implementing SME Growth Stock to stimulate and facilitate public growth and expansion financings, to increase the size of our SMEs, and thus enable them to improve their position in their market segments.

Individuals who invest in Québec public SMEs will be able to claim a tax deduction of 100% on the shares they purchase.

The measure is designed to stimulate the supply of capital to increase the total volume of financing and thus facilitate offerings by these companies:

- The tax incentive will encourage Québec investors to acquire shares of these SMEs.
- In many cases, this will have a trigger effect that will enable the offering to be completed outside Québec.

SME Growth Stock will enable offerings to be carried out that, without this incentive measure, would not attract sufficient interest among investors to enable the company to carry out the offering of shares that it wants.

The measure will help support larger financings to enable companies with assets of less than $100 million to grow in size more quickly.

The measure will be available for initial public offerings (IPO) as well as for subsequent offerings. SME Growth Stock will help increase the number of companies that make use of public financings.

Although the measure draws on the Stock Savings Plan (SSP), its application parameters are significantly different. Major changes have been made to its parameters so as to target only the smallest public companies, simplify the program and tighten the application details to maximize the measure's impact.

Accordingly:

- The maximum size of eligible companies is being reduced to $100 million of assets, compared to $350 million under the SSP.
- A single deduction rate of 100% will apply.
- The minimum two-year holding period of securities will be extended to three years.
- The new coverage mechanism[6] will require an investor who disposes of a qualifying security to replace it with another eligible securitiy within 21 days. This will generate more liquidity for this segment of the public financings market.

TABLE 17

MAIN PARAMETERS OF SME GROWTH STOCK

Component	SME Growth Stock
Qualified corporations	• Québec corporations with assets under $100 million • Startup capital corporations • Investment funds
Qualifying securities	• Newly issued common shares with voting rights • Securities issued by investment funds
Tax incentive	• A single personal income tax deduction rate: 100%
Minimum holding period	• 3 years
Coverage mechanism (following the sale of an eligible security)	• Coverage required within 21 days

SME Growth Stock will be introduced for a period of five years, after which its usefulness and effectiveness will be reassessed.

The cost of this incentive measure is estimated at $20 million per year. It will benefit individuals who make investments to support the growth of companies in Québec.

6 The coverage mechanism allows investors to dispose of an investment provided they replace it with an investment of the same value.

2.6 Assistance for major employment-generating projects in the information technology sector

The emergence of countries with low-cost and highly-skilled labour has led many companies to adopt a management model that emphasizes out-sourcing of various activities to sub-contractors.

Out-sourcing activities offer excellent growth prospects. Large international contracts are at stake and thousands of jobs go with them. With the dynamism of Québec companies operating in the information technology sector, Québec has significant strengths that position it advantageously on this highly competitive international market.

To strengthen Québec's position regarding the awarding of international-scale out-sourcing contracts, the government is introducing a temporary tax credit of 25% on salaries linked to major employment-generating projects. The main parameters of this tax assistance are as follows:

— project linked to the information technology sector;

— contract enabling the creation of at least 500 jobs in Québec.

TABLE 18

TAX CREDIT FOR MAJOR EMPLOYMENT-GENERATING PROJECTS IN THE INFORMATION TECHNOLOGY SECTOR

Eligible companies	Parameters of tax assistance		Eligibility	
	Rate	Base		
Corporations satisfying the following criteria: • activities carried out under an eligible contract; • activities linked to the information technology sector; • each eligible contract leads to the creation of 500 jobs within a maximum period of 24 months.	25%	Salaries incurred as of January 1, 2005 and before January 1, 2017. Cap of $60 000 (maximum tax credit of $15 000 per job per year).	Contract that has been certified and that covers : • activities relating to the development and supply of products and services relating to e-business; • activities associated with the operation of e-business solutions; • activities of a customer-contact centre.	Contract concluded after December 31, 2004 and before January 1, 2008. Limit of 2000 jobs per corporation.

This tax assistance should enable many hundreds of jobs to be created in Québec over the coming years. In addition to benefiting our young graduates, these jobs are in a high technology sector.

2.7 Support for the transmission of family businesses

Passing SMEs on to the next generation is an important issue for our economy, particularly as a relatively large number of business leaders is expected to retire over the next ten years. The lack of capital of potential successors is one of the main reasons preventing the transmission of businesses to the next generation.

In this regard, the government is announcing the implementation of a new SME Succession component of Investissement Québec's SMB Financial program.

The SME Succession component will support financing of the transmission of businesses within a family, to executives of a business or to any other entrepreneur interested in acquiring a business. It will supply financing that completes the direct investment of a venture capital corporation or the traditional financing of financial institutions.

This financial assistance will consist of a guarantee on the repayment of the net loss on a loan made by a financial institution, or a direct loan by Investissement Québec. In this regard, Investissement Québec will be more particularly interested in financial interventions of less than $2 million.

This new component will be funded from the envelope already stipulated for Investissement Québec's SMB Financial program.

3. Support for R&D, innovation and exports

Industrialized economies come to be knowledge- and innovation-based economies due to the creation, dissemination and exploitation of knowledge. Strategic investment in research, innovation and product development is therefore a condition essential to enhancing our economic performance.

The success of Québec businesses in several areas of the knowledge-based economy bears witness to our opportunities and potential for development. But more needs to be done. To that end, the government is introducing enhanced support measures for investment in R&D and innovation.

In addition, small businesses must be assisted in their efforts to improve their productivity and performance on export markets.

To attain these objectives, this Budget Speech announces the following four measures:

- an increase, from 35% to 37.5%, in the rate of the R&D tax credit for SMEs;
- the broadening of the scope of the design tax credit;
- the creation of a proof of concept funding program for university research findings;
- the implementation of a support program for businesses investing in productivity enhancement and export development.

TABLE 19

FINANCIAL IMPACT OF THE MEASURES TO SUPPORT R&D, INNOVATION AND EXPORTS
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Support for R&D, innovation and exports				
Increase, to 37.5%, in the rate of the R&D tax credit for SMEs	– 6	– 18	– 18	– 42
Broadening of the scope of the design tax credit	– 2	– 6	– 8	– 16
Proof of concept funding program for university research findings	– 2	– 2	–	– 4
Productivity enhancement and export development	– 5	– 5	– 5	– 15
TOTAL	– 15	–31	–31	– 77

3.1 Increase in the rate of the R&D tax credit for SMEs

SMEs that carry out their R&D activities themselves may claim a 35% refundable tax credit respecting the salaries of their researchers. To further stimulate research by SMEs in Québec, the government is increasing the rate of this tax credit to 37.5%.

TABLE 20

INCREASE IN THE RATE OF THE R&D TAX CREDIT FOR SMEs

	Tax assistance parameters		Financial impact over a full year
	Rate	Base	($ million)
Increase in the rate of the tax credit for SMEs[1]	35% to 37.5%	Salaries paid/ research contracts	– 18

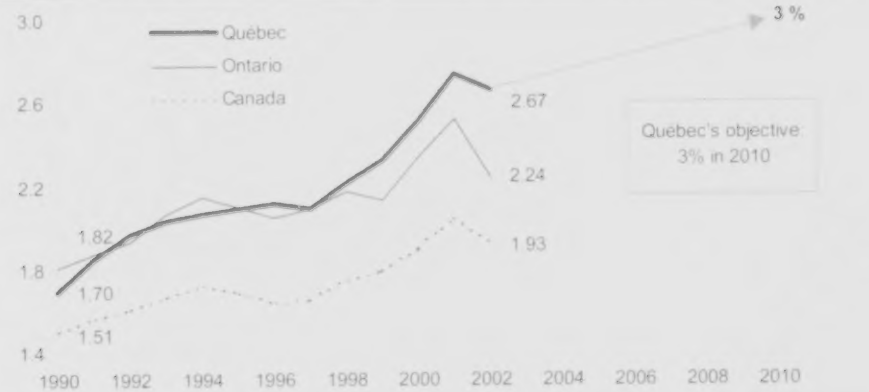
1 For the purposes of the R&D tax credit, an SME is a company whose assets are less than or equal to $25 million. The tax credit rate is reduced linearly to 17.5% for companies with assets between $25 million and $50 million. The rate is 17.5% for companies with assets equal to or greater than $50 million.

The increase, to 37.5%, in the tax credit rate will enable SMEs, which devote a large part of their R&D spending to labour, to obtain more funds for their research activities. The increase will benefit, in particular, certain key sectors of the Québec economy, such as the biotechnology sector, which are largely composed of SMEs required to invest massively in R&D.

Moreover, the increase will help in attaining the government's objective to raise the level of R&D spending in Québec to 3% of GDP by 2010.

CHART 8

CHANGES IN R&D SPENDING: QUÉBEC'S OBJECTIVE FOR 2010
(percentage of GDP)



Sources: Institut de la statistique du Québec (December 2004) and ministère des Finances du Québec.

With this increase, Québec continues to lead the rest of Canada in R&D tax assistance for SMEs.

The net cost, after income tax, of $1000 in R&D spending by a Québec SME is $266, down from $275. The Canadian average is $330.

CHART 9

NET COST OF $1000 IN R&D SPENDING (AFTER INCOME TAX) FOR SMEs[1] – APRIL 2005
(dollars)

1. The following assumptions were made: the businesses are profitable, federal tax assistance is included, spending breaks down into $600 for salaries and $400 for machinery and equipment. The proxy method was used for the other provinces.

Source: Ministère des Finances du Québec.

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(dollars)

1 The following assumptions were made: the businesses are profitable; federal tax assistance is included; spending breaks down into $600 for salaries and $400 for machinery and equipment. The proxy method was used for the other provinces.
Source: Ministère des Finances du Québec.

3.2 Broadening of the scope of the design tax credit

A successful product development process includes, in particular, R&D and design activities. Through design activities, consumer needs and preferences are reconciled with a business's production constraints.

Current assistance for innovation and product development

Tax assistance is available to businesses for design activities. The rate of the refundable design tax credit is 15%, and can be up to 30% for SMEs. This measure especially benefits businesses in the clothing, textile and furniture sectors.

These businesses may claim a tax credit respecting salaries they pay for their design activities and under contracts concluded with a design consultant. Businesses in other industrial sectors may claim the tax credit only for contracts concluded with a design consultant.

TABLE 21

CURRENT PARAMETERS OF THE DESIGN TAX CREDIT

	Industrial sectors	Assets of the business[1]	Cap per designer	Rate applicable to designers' salaries
Design activity carried out by the business	Clothing, textile and furniture sectors only	SMEs	$60 000	30%
		Large businesses	$60 000	15%
Design activity carried out by a design consultant	All	SMEs	None	30%
		Large businesses	None	15%

1. For the purposes of the design tax credit, an SME is a company whose assets are less than or equal to $25 million. The tax credit rate is reduced linearly to 15% for companies with assets between $25 million and $50 million. The rate is 15% for all companies with assets equal to or greater than $50 million.

Broadening of the scope of the design tax credit

The design tax credit is currently very limited in scope, as businesses in a number of industrial sectors cannot claim it. Yet design can be an effective strategy for businesses seeking to enhance their competitiveness by emphasizing innovation. Through design, businesses can:

— enhance their range of products;

— develop a distinctive brand and niche products less vulnerable to competition from countries where labour costs are lower;

— better penetrate foreign markets and compete with imported products on the domestic market.

To support more businesses in their innovation and product development activities, the scope of the tax assistance is broadened to recognize:

— the contribution of designers employed by a business, regardless of the industrial sector;

— the work of patternmakers or assistant designers in the clothing and textile sectors.

Through these changes, the government will allocate $15 million annually for the innovation activities of businesses.

TABLE 22

DESIGN TAX CREDIT – IMPROVEMENTS MADE

	Industrial sectors			Financial impact over a full year ($ million)
	Clothing and textile	Furniture	Other	
Before the 2005-2006 Budget Speech	• Designers employed by the business • Design consultants	• Designers employed by the business • Design consultants	• Design consultants	- 7
After the 2005-2006 Budget Speech	• Designers and pattern-makers employed by the business • Design consultants	• Designers employed by the business • Design consultants	• Designers employed by the business • Design consultants	- 15
Additional financial impact for the government				**- 8**

With these new parameters, nearly 700 businesses, up from roughly 300, will be able to take advantage of the tax assistance, and the measure will affect close to 1500 workers specialized in innovation and product design.

TABLE 23

IMPACT OF THE CHANGES TO THE DESIGN TAX CREDIT ON THE NUMBER OF ELIGIBLE DESIGNERS, PATTERNMAKERS AND BUSINESSES[1]

	Currently eligible	Increase after changes	Total
Designers	500	1000	**1500**
Patternmakers	N/A	150	**150**
Businesses	300	400	**700**

1 Estimates of the ministère des Finances du Québec.

3.3 Creation of a proof of concept funding program for university research findings

For researchers, proof of concept consists in demonstrating the technical reliability and commercial potential of their discovery. It is generally subsequent to a researcher's invention disclosure and prior to the onset of the discovery's commercial value.

DIAGRAM 3

STAGES IN INNOVATION DEVELOPMENT

However, according to a number of stakeholders, funding proof of concept is problematic because it is a stage that is too risky to attract private capital.

Due to inadequate maturation, university research projects are marketed too rapidly and businesses are prematurely created. As a result, the commercialization of university research has a high failure rate.

To increase the use of university research findings and maximize the related economic benefits, the Québec government is introducing a proof of concept funding measure.

To that end, the ministère du Développement économique, de l'Innovation et de l'Exportation will receive a total of $4 million in additional appropriations for the next two years.

3.4 Supporting businesses with a view to productivity enhancement and export development

Investment in machinery and equipment is key to improving the productivity of Québec businesses, especially manufacturing SMEs. However, to optimize such investments and capitalize on the economic potential of external markets, businesses need assistance in the form of consulting services, expertise and support. To that end, the government will introduce certain initiatives.

$15 million for productivity enhancement and export development

Enhancement of business productivity

Objective

- To make financial assistance available to manufacturing SMEs so that they can take advantage of consulting services specialized in productivity enhancement

Eligible clientele

- Manufacturing businesses with fewer than 200 employees and collaborative business networks whose activities are strategic in nature

Financial assistance

- Non-refundable contribution: 40% of eligible expenditures (maximum $50 000)
- Maximum government contributions: 50% of total project costs

Principal eligible expenditures

- Professional fees
- Research expenses to obtain patents and protect intellectual property

Examples of eligible projects

- Development of a new product or innovative process
- Implementation of technology transfer
- Enhancement of managerial skills
- Acquisition or protection of intellectual property
- Elaboration of funding strategies
- Implementation of investment projects

Support for export businesses

Main objectives

- Ensure the sustainability of Québec businesses on the Canadian and U.S. markets
- Diversify the international markets of Québec businesses
- Take advantage of the business opportunities generated by emerging economies

Principal measures

- Marketing assistance for businesses to ensure that Québec products are on the lists of the decision makers of major North American chains
- Assistance in the movement of merchandise exports across the U.S. border
- Support for Québec businesses in directing their initiatives toward emerging economies

4. Support for regional development

The economic context is evolving rapidly and has a considerable impact on certain sectors of activity. The forestry, textile and clothing sectors are no stranger to this upheaval, and regions where the economy is more reliant on these sectors are generally very adversely affected.

In Québec, there are close to 200 so-called single-industry municipalities, over 40% of which are situated in the resource regions and close to half of which rely on forestry-related actvities. When these communities experience economic difficulties, they need help consolidating or making the transition toward other sectors of activity, thereby enabling their workers to find new jobs.

In addition, Québec's resource regions have a number of other difficulties to cope with, such as the consequences of the softwood lumber dispute. According to the available economic performance indicators,[7] the peripheral regions lag behind the other regions of Québec. Economic diversification of these regions, focused in particular on the secondary and tertiary resource processing sectors, is key to ensuring their development in the medium and long terms.

To enable businesses, workers and communities to adapt to these situations, the government is introducing two series of measures to support regional development:

- The government is announcing a series of measures designed to foster the adaptation and diversification of regional economies. All told, these measures will amount to $240 million, $150 million of which will be in the form of budgetary measures, and will be available to the regions over the next three years.

- Further support is being provided for the financing and capitalization of regional businesses, thereby making an additional amount of $118 million available to the regions.

These measures are designed to give the regions the means to diversify their economy with a view to ensuring sustainable economic development.

7 CIRANO. *La dimension territoriale des politiques de développement économique au Québec : enjeux contemporains*, February 2005.

TABLE 24

FINANCIAL IMPACT OF SUPPORT MEASURES FOR REGIONAL DEVELOPMENT
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Support for regional development				
Budgetary measures				
Improved forest management	– 25	– 25	– 25	– 75
$30-million assistance fund for single-industry towns	– 10	– 10	– 10	– 30
Support for workers in forest-based communities	– 1	– 2	– 2	– 5
Support for social economy business projects in the regions	– 1	– 2	– 2	– 5
Greenhouse industry – use of alternative energy sources	– 3	– 2	—	– 5
Local products	– 2	– 3	– 4	– 9
Investments in nature park infrastructures	—	– 6	– 6	– 12
Tourism in the regions	– 5	—	—	– 5
Development of a network of protected areas	– 1	– 1	– 2	– 4
Subtotal – Budgetary measures	**– 48**	**– 51**	**– 51**	**– 150**
Fiscal measures				
Extension of tax credits for processing activities in the resource regions	– 9	– 28	– 53	– 90
Total	**– 57**	**– 79**	**– 104**	**– 240**
Financing and capitalization				
Additional capitalization for FIER-Régions	Capital outlay of $78 million			
Conversion of Innovatech Régions ressources	Capital outlay of $30 million from CRCD			
Société Innovatech Québec et Chaudière-Appalaches and Société Innovatech du sud du Québec	Capital outlay of $10 million			

4.1 Measures to support economic adaptation and diversification

The 2005-2006 Budget Speech comprises a series of measures to support the adaptation and diversification of regional economies:

— forest management measures;

— assistance fund for single-industry towns experiencing economic difficulties;

— support for workers in forest-based communities;

— extension of tax credits for processing activities in the resource regions;

— assistance for the greenhouse industry and support for local products and small-scale alcoholic beverage production;

— investment in nature park infrastructures;

— stepped up intervention on behalf of tourism in the regions;

— development of a network of protected areas.

Funding of priority measures for forest management

To improve forest management, the government is implementing a series of priority measures, including the following:

— access to forest resources in northern regions;

— development of technologies and new products;

— creation of the position of chief forester;

— improvement of the calculation of the allowable cut;

— development of knowledge and improved forest inventories;

— support program for forest stakeholders;

— increased support for aboriginal communities to facilitate access to the resource.

By implementing these measures, the government is following up on recommendations of the Commission for the study of public forest management in Québec (Coulombe Commission).

The Commission was mandated to prepare a report on the situation of public forest management, from the perspective of integrated resource management, and propose solutions for improving the forestry regime. In its report, which was released on December 14, 2004, the Commission made a series of recommendations to improve the management of public and private forests.

To implement these measures, $75 million in additional appropriations will be granted to the ministère des Ressources naturelles et de la Faune over the next three years.

Support for single-industry towns experiencing economic difficulties

The changing industrial structure and varying economic conditions can lead to the vulnerability of municipalities with a non-diversified economic base.

The economy of several Québec municipalities relies on the presence of one or a few employers in a single sector of activity, so that the closure of the main employer can cause major social and economic problems for the community.

To support single-industry towns and communities experiencing economic difficulties, the government is introducing a financial assistance measure of $30 million over three years.

This measure will provide financial support for the economic action and recovery plan produced by the authorities of the municipalities experiencing socioeconomic difficulties, and for the communities' diversification efforts.

The ministère des Affaires municipales et des Régions will be responsible for supporting the development and implementation of action plans, and for coordinating efforts, in collaboration with the main local economic stakeholders. Moreover, the ministère du Développement économique, de l'Innovation et de l'Exportation will support businesses' economic diversification and development projects that support and create jobs in communities.

Support for workers in forest-based communities

The measure announced by the government in regard to the 20% reduction in the allowable softwood cut—one of the recommendations of the Commission for the study of public forest management in Québec—is expected to have an economic impact in a number of forestry regions.

To support workers in forest-based communities, additional financial assistance will be granted for the training of forestry workers and the development of social economy businesses in the regions. Training will boost the number of forestry workers and enhance forest yield.

Moreover, social economy businesses can play an important role in the development of forest-based communities experiencing economic difficulties, by contributing vigorously to job creation in these communities.

To that end, additional appropriations of $10 million over the next three years will be allocated.

Extension of tax credits for processing activities in the resource regions

The Québec tax system makes three specific tax credits available to businesses in the resource regions:

- a refundable tax credit for processing activities in the resource regions;
- a refundable tax credit for the Vallée de l'aluminium, located in the Saguenay–Lac-Saint-Jean administrative region;
- a refundable tax credit for Gaspésie and certain maritime regions of Québec.

Briefly, these tax credits, whose rate is 30% or 40%, as the case may be, are granted for a five-year period in regard to the salaries paid for jobs created by businesses in a Québec resource region.

The purpose of these fiscal measures is to foster economic diversification in the regions, essentially by stimulating the development of secondary and tertiary natural resource processing activities. In 2005, the total cost of these measures should reach $60 million.

Major support for regional diversification

Nearly 700 businesses engaged in the secondary and tertiary processing of natural resources are entitled to these tax credits. Since 2000, the fiscal measures have contributed to improving the situation of manufacturing jobs in the regions:

- creation of at least 4 400 jobs;
- support of nearly 8 600 other jobs.

TABLE 25

TAX CREDITS APPLICABLE IN THE RESOURCE REGIONS[1]
(number of businesses and jobs, and tax assistance per job)

Tax credit	Eligible businesses	Jobs created	Jobs maintained	Tax assistance per job created[2]
Processing activities in the resource regions	553	3 488	6 768	$13 876
Vallée de l'aluminium	73	325	343	$17 231
Gaspésie and certain maritime regions	47	599	1 449	$10 684
TOTAL/AVERAGE	**673**	**4 412**	**8 560**	**$13 690**

1 Compilation by the ministère des Finances du Québec.
2 Estimate by the ministère des Finances du Québec for the 2005 calendar year.

The wood and metal processing sectors group nearly 500 businesses, that is, roughly 75% of total eligible businesses.

TABLE 26

BREAKDOWN OF ELIGIBILITY CERTIFICATES REGARDING THE TAX CREDITS

Sector of activity	Eligibility certificates	Breakdown (%)
Wood processing	249	37.0
Metal processing	243	36.1
Food	69	10.3
Non-metallic minerals	24	3.6
Energy	9	1.3
Marine products, marine biotechnology, mariculture and wind energy sector	47	7.0
Reclamation and recycling	15	2.2
Other	17	2.5
TOTAL	**673**	**100.0**

Source: Investissement Québec.

During the 2000-2004 period, manufacturing jobs rose an average of 1.3% in the resource regions, but fell 0.3% in the other regions of Québec. During the 1987-2000 period, it was the opposite, with manufacturing jobs rising only 0.1% in the resource regions, compared with 0.9% in the other regions of Québec.

These data show that the fiscal measures have contributed to the growth of manufacturing jobs in the resource regions. It is essential for this positive effect on manufacturing jobs to be better reflected in the overall job situation, which is still problematic in these regions. The government therefore intends to continue encouraging the resource regions.

TABLE 27

CHANGES IN MANUFACTURING JOBS IN QUÉBEC FROM 1987-2000 TO 2000-2004

	Average annual variation in jobs			
	1987-2000		2000-2004	
	(number)	(%)	(number)	(%)
Resource regions	100	0.1	975	1.3
Other regions of Québec	4 615	0.9	– 1 525	– 0.3

Source: Statistics Canada, Labour Force Survey, annual averages

Extension of the tax credits to 2009

As of January 1, 2005, close to 60 businesses in the resource regions stopped receiving the tax credit for new jobs created during the 2000-2004 period. In addition, almost half the businesses that currently claim it will no longer be able to do so as of 2006. Several employers in the regions will be affected by the expiry of these tax credits.

To enable the regions to further diversify and optimize their economic potential, the government is announcing the extension, to 2009 inclusively, of the three tax credits applicable to businesses in the resource regions. This measure will make it possible to continue supporting job creation until December 31, 2009, thereby raising the maximum period for per-job assistance from 5 to 10 years.

Projects submitted until December 31, 2007 will remain eligible for the tax assistance. However, the application of the tax credits will not be extended beyond 2009.

TABLE 28

IMPACT OF EXTENDING THE TAX CREDITS FOR BUSINESSES IN THE RESOURCE REGIONS

	Tax assistance parameters		Financial impact over a full year ($ million)
	Rate	Base	
Extension of the tax credits for the resource regions	30% or 40%, as the case may be	Salaries related to job creation[1]	–61
• maximum period of assistance raised from 5 years to 10 years			
• tax assistance ends on December 31, 2009 for all jobs created			

1 Salaries paid in regard to mariculture and marine biotechnology

TABLE 29

TAX CREDITS FOR BUSINESSES IN THE RESOURCE REGIONS

Tax credit	Eligible activity	Eligible territory
Processing activities in the resource regions		
• 30% of salaries paid to new employees, up to December 31, 2009	• Manufacturing or processing of finished or semi-finished products (including equipment) from wood, paper and cardboard, as well as of metals (except aluminum) and non-metallic minerals • Food processing, reclamation and recycling of waste and residual materials resulting from natural resource exploitation or processing, fresh-water aquaculture, production of non-conventional energy, manufacturing of products from peat	• Bas-Saint-Laurent Saguenay–Lac-Saint-Jean Mauricie Abitibi-Témiscamingue Côte-Nord Nord-du-Québec Gaspésie–Îles-de-la-Madeleine Antoine-Labelle RCM Vallée-de-la-Gatineau RCM Pontiac RCM
Vallée de l'aluminium		
• 30% of salaries paid to new employees, up to December 31, 2009	• Manufacturing or processing of finished or semi-finished products from aluminum that has undergone primary processing	• Saguenay–Lac-Saint-Jean
Gaspésie and certain maritime regions		
• 40% of salaries paid to new employees, up to December 31, 2009	• Transformation of marine products (fish and seafood) • Manufacturing of wind-power generators and production of wind power	• Gaspésie–Îles-de-la-Madeleine, Côte-Nord and Matane RCM • Gaspésie–Îles-de-la-Madeleine and Matane RCM
• 40% of salaries paid, up to December 31, 2009	• Mariculture (growing of marine products) • Manufacturing of finished or semi-finished products in the marine biotechnology field	• Gaspésie–Îles-de-la-Madeleine and Côte-Nord • Gaspésie–Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent

Assistance for the greenhouse industry and support for local products and small-scale alcoholic beverage production

To ensure the economic development of the regions and foster their vitality, the government is assisting certain sectors of activity with strong growth, located primarily in the regions and composed essentially of small businesses, in order to enable them to stay the course and reach their full development potential.

To that end, the government is implementing the following measures:

- assistance for the greenhouse industry;
- action plan for niche and local products;
- support for the development of Québec's small-scale alcoholic beverages.

Additional appropriations of $10 million will be made available in this regard over the next two years.

Assistance for the greenhouse industry and support for local products and small-scale alcoholic beverage production

Assistance for the greenhouse industry respecting the use of alternative energy sources

Objective

- Enable the implementation of energy-recovery pilot projects and the introduction of new energy sources in the greenhouse industry, with a view to sustainable development and energy efficiency

Eligible projects

- Energy recovery or use of non-conventional energy sources for the heating or artificial lighting needed in photosynthesis
  - New greenhouse construction
  - Major expansion projects

Financial assistance

- The budgetary impact of the financial assistance must not exceed 15% of the cost of the project

Action plan for niche and local products

Objectives

- Provide a legislative framework for certain notions such as "fermier" and "artisanal" regarding local products
- Control their use
- Develop local products

Principal measures

- A legislative framework for new labels–"terroir", "fermier" and "artisanal"–and the implementation of control and monitoring systems
- Support for business groups and technical and financial guidance for the latter with a view to obtaining a reserved designation
- Support for accreditation and certification bodies under the *Act respecting reserved designations*
- Promotion of new labels and designations

Support for Québec's small-scale alcoholic beverage industry

Objective

- Support the development of the small-scale alcoholic beverage industry

Areas of intervention

- Support for production
- Support for processing
- Support for marketing

Principal measures

- Temporary assistance over three years for targeted measures in keeping with the needs of producers (terms and conditions to be specified at a later date)
  - Facilitation of access to technical guidance
  - Facilitation of product development and the acquisition of equipment
  - Facilitation of access to specialized training

Investments in nature park infrastructures

Because of their ability to attract tourists and their international calibre, the facilities of the Société des établissements de plein air du Québec (Sépaq) provide substantial leverage for economic development in the regions. However, they need to be modernized.

Sépaq will invest $22 million over the next two years for modernization purposes. By reinforcing the quality of its infrastructures, the corporation will contribute to the economic development of the regions. These investments will enable nearly 300 jobs, mostly in the regions, to be maintained or created, and contribute to the growth of supply and demand regarding local goods and services.

To enable the required investments to be made, additional appropriations of $6 million will be made available as of the the 2006-2007 fiscal year.

Investments in nature park infrastructures (Sépaq)

Objectives

- Avoid further deterioration of public assets
- Better meet the needs of the clientele, while providing it with safe facilities
- Consolidate and maintain activities in Sépaq establishments
- Enable establishments to play their role, which is essential to supporting the tourism industry

Measures

- Repair of buildings and infrastructures
- Compliance with environmental standards
- Safeguard of historic buildings
- Retrofitting of access infrastructures and stabilization of the natural environment

Tourism in the regions

Tourism is a major avenue of development for the regions. It is therefore important to support regional projects and activities that stimulate the tourism industry.

To support tourism activitites in the regions, the spending envelope of the ministère du Tourisme is being increased by $5 million in 2005-2006. The Minister of Tourism will specify how these additional appropriations will be allocated.

Development of a network of protected areas

The Québec government recognizes the importance of preserving our natural heritage for future generations. In this regard, the government has pledged to designate 8% of Québec's territory, or a total surface area of 45 000 km², a protected area.

The 2004-2007 Québec action plan on biological diversity underscored the importance of stepping up the private sector's involvement in efforts to protect Québec's natural heritage and achieving the objectives set. Protected areas on private land account for an area of 150 km².

To respect government commitments in this regard, the new program to preserve the private natural heritage announced in the 2005-2006 Budget Speech provides for an envelope of $9 million over three years. The purpose of these funds is to develop a network of protected areas on private land and amass financial leverage in respect of private conservation agencies to create a heritage legacy.

The program will make private landowners accountable for the preservation of our natural heritage and target three objectives:

— encourage private landowners to protect their natural sites;

— allow conservation agencies of protected areas to acquire private lands; this support is part of a shift toward public-private partnerships, and investments of $15 million from the private sector are anticipated;

— foster the recognition and preservation of private nature reserves.

The details of this program will be announced by the Minister of Sustainable Development, Environment and Parks.

4.2 Measures for the financing and capitalization of businesses in the regions

To support the financing and capitalization of businesses in the regions, two initiatives will provide the regions with additional funds:

- FIER-Régions will receive additional capitalization of $78 million.
- The government will continue the conversion of Innovatech corporations into mixed public-private capital corporations.

These measures are described in parts 2.1 and 2.2 of this section.

5. Financial impact of measures to encourage wealth creation

TABLE 30

MEASURES TO ENCOURAGE WEALTH CREATION
FINANCIAL IMPACT FOR THE GOVERNMENT
(millions of dollars)

	Fully implemented	2005-2006	2006-2007	2007-2008	Total
1. Corporate taxation reform to promote investment					
Reduction of more than 50% in the tax on capital	– 858	– 50	– 221	– 380	– 651
Increase in the taxation rate for large businesses	587	43	174	258	475
Reduction in the taxation rate of SMEs	– 34	– 7	– 30	– 32	– 69
Introduction of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment	—	– 55	– 74	– 96	– 225
Increase in capital cost allowance rates	– 20	– 3	– 8	– 11	– 22
Subtotal	**– 325**	**– 72**	**– 159**	**– 261**	**– 492**
2. Enhancement of business funding assistance					
Additional capitalization of $78 million in FIER-Régions[1]		—	—	—	—
Incentive for tax-advantaged funds to invest in specialized private funds		—	—	—	—
Continuation of the conversion of Innovatech corporations into mixed public-private capital corporations[2]		—	—	—	—
Asset limit of companies eligible for investments by tax-advantaged funds raised to $100 million		—	—	—	—
SME Growth Stock		– 4	– 20	– 20	– 44
Assistance for major employment-generating projects in the information technology sector		– 5	– 10	– 20	– 35
Support for the transmission of family businesses		—	—	—	—
Subtotal		**– 9**	**– 30**	**–40**	**– 79**

MEASURES TO ENCOURAGE WEALTH CREATION
FINANCIAL IMPACT FOR THE GOVERNMENT (CONT.)
(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
3. Support for R&D, innovation and exports				
Increase, to 37.5%, in the rate of the R&D tax credit for SMEs	– 6	– 18	– 18	– 42
Broadening of the scope of the design tax credit	– 2	– 6	– 8	– 16
Proof of concept funding program for university research findings	– 2	– 2	—	– 4
Productivity enhancement and export development	– 5	– 5	– 5	– 15
Subtotal	**– 15**	**– 31**	**– 31**	**– 77**
4. Support for regional development				
Improved forest management	– 25	– 25	– 25	– 75
$30-million assistance fund for single-industry towns	– 10	– 10	– 10	– 30
Support for workers in forest-based communities	– 1	– 2	– 2	– 5
Support for social economy business projects in the regions	– 1	– 2	– 2	– 5
Extension of tax credits for processing activities in the resource regions	-9	-28	-53	-90
Greenhouse industry – use of alternative energy sources	– 3	– 2	—	– 5
Local products	– 2	– 3	-4	– 9
Investments in nature park infrastructures	—	– 6	– 6	– 12
Tourism in the regions	-5	—	—	-5
Development of a network of protected areas	– 1	-1	-2	– 4
Subtotal	**– 57**	**– 79**	**– 104**	**– 240**
TOTAL	**– 153**	**– 299**	**– 436**	**– 888**

1 Government outlay of $78 million.
2 Government outlay of $10 million in Innovatech du sud du Québec and Innovatech Québec et Chaudière-Appalaches, and outlay of $30 million by CRCD in Innovatech Régions ressources.

Finances
Québec

2005-200

Budget

Highlights

A BUDGET OF DISCIPLINED, RESP

SOCIAL JUSTICE

HEALTH FIRST

- A budget of $20.9 billion in 2005-2006.
- An increase of nearly $3 billion in the last 3 years.
- $826 million more in direct services in 2005-2006.
- Free medication for the most disadvantaged seniors.
- $43 million in additional support for 80 000 natural caregivers and persons with disabilities.

EDUCATION TO PREPARE FOR THE FUTURE

- A budget of $12.3 billion in 2005-2006.
- In the past three years, $1 billion more invested in academic achievement.
- $321 million more in 2005-2006.
- Homework assistance: increase from $10 million to $20 million.
- Plan to encourage reading and introduction of English second language instruction beginning in the first grade.
- An extra $380 million to universities in the past 3 years.

PROMOTING ARTS AND CULTURE

- Total support of $663 million in 2005-2006.
- Placements Culture: $5 million to stimulate private investment in culture.
- $5 million for museums.

GREATER SOCIAL JUSTICE FOR ALL

- Investment in social housing:
  - $145 million for 2 600 new housing units, for a total of 18 600 new units;
  - $15 million to renovate existing social housing.
- This is in addition to the $2.5 billion under the plan to combat poverty.

FAMILIES: ALWAYS AT THE HEART OF OUR ACTIONS

- Over $1 billion returned to families in the last 2 years.
- Establishment of the Québec parental insurance plan.

CONTINUING TO EASE THE TAX BURDEN OF INDIVIDUALS

- Reduction of $372 million over a full year.
- New $500 deduction for workers.
- Gap between Québec and the Canadian average cut by nearly half since April 2003.
- Indexation of the tax system: $250 million to taxpayers in 2005-2006.

2005-2006 BUDGET

ONSIBLE MANAGEMENT FOR ECONOMIC P

ECONOMIC PROSPERITY

INCREASING PRIVATE INVESTMENT FOR GREATER PRODUCTIVITY

- **Reform of corporate taxation:**
  - tax on capital cut by more than 50%;
  - 5% tax on capital credit for new investments in machinery and equipment;
  - taxation rate of SMEs reduced to 8.5%.

- **Assistance for business financing:**
  - additional funding of $78 million for FIER, doubling the government's initial capital outlay;
  - SME Growth Stock Plan: a new tax incentive for individuals investing on the public market;
  - Relève PME: to facilitate the transfer of businesses;
  - tax credit for major projects in the information technology sector.

- **Support for R&D, innovation and exports:**
  - increase in the refundable R&D tax credit from 35% to 37.5% of wages for SMEs;
  - extension of the design tax credit;
  - $15 million in specialized consulting services to support productivity and exports.

BUILDING ON REGIONAL INITIATIVE

- **Accelerating the economic diversification of our regions:**
  - $240 million over 3 years to implement the forest management recommendations of the Coulombe Commission;
  - $57 million in 2005-2006;
  - $5 million to support structuring activities in the regions;
  - $22 million for Québec national parks;
  - $9 million for protected areas.

- **Supporting the agricultural sector:**
  - a budget of $656 million in 2005-2006;
  - $305 million for Financière agricole du Québec to fund its income security and development support programs;
  - $5 million to promote local products and small-scale alcoholic beverage production;
  - creation of a business incubator in the biofood sector.

Close to $900 million over three years to foster wealth creation and the prosperity of our regions

105-04051

A BUDGET OF DISCIPLINED, RESP

SOCIAL JUSTICE

STAYING THE COURSE OF OUR PRIORITIES
OUR OBJECTIVE: CONTINUE TO INVEST

HEALTH FIRST

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2005-2006 BUDGET

ONSIBLE MANAGEMENT FOR ECONOMIC F

ECONOMIC PROSPERITY

ENCOURAGE WEALTH CREATION

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PROSPERITY AND SOCIAL JUSTICE

RESPONSIBLE MANAGEMENT

MODERNIZING OUR INFRASTRUCTURES

- **Record investment in infrastructure:**
  - $4.1 billion in 2004-2005; $4.9 billion in 2005-2006.
    - road infrastructures and public transit: average investment of $1.3 billion a year until 2007-2008;
    - health and education network: nearly $2 billion in the next year alone;
    - maintenance of assets: $1 billion more over 3 years.
  - municipal infrastructure: Société de financement des infrastructures locales (SOFIL) will ultimately enable municipalities to invest $1 billion in infrastructures annually.

- **Building on our energy resources:**
  - Annual investment of over $3 billion by Hydro-Québec in hydroelectricity and wind power;
  - refundable tax credit for the production and marketing of ethanol;
  - the fuel tax paid on biodiesel purchased by public carriers will be fully refunded.

MAINTAINING A BALANCED BUDGET

- 2004-2005:
  - spending target met;
  - zero deficit achieved.

- 2005-2006: maintenance of a balanced budget:
  - program spending objective raised to 3.6%, in part to take into account collective agreements and pay equity;
  - continued efforts to modernize government;
  - renewal of measures to fight tax evasion;
  - continued efforts to correct the fiscal imbalance.

- 2006-2007:
  - program spending objective maintained at 3.6%, in part to take into account collective agreements and pay equity;
  - reduction of debt load from 44% of GDP to below 40% within 5 years by maintaining a balanced budget.

PROSPERITY AND SOCIAL JUSTICE

RESPONSIBLE MANAGEMENT

DISCIPLINED, RESPONSIBLE MANAGEMENT
OUR OBJECTIVE: MAINTAIN QUALITY PUBLIC SERVICES

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